ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

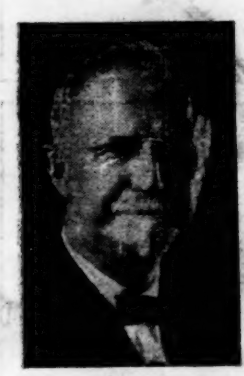
Volume 168 Number 4724 New York, N. Y., Thursday, August 12, 1948 Price 30 Cents a Copy

Competition

By ROGER W. BABSON

Maintaining competition is essential to progress, Mr. Babson points out its value as stimulating and inspiring human effort. Holds most of good things we have today we owe to competition and inventors.

I recently read an article in an educational journal which takes businessmen to task for encouraging rivalry and competition in the schoolroom. The article implies that the educator who encourages competition among his pupils is "sowing the seeds of war in the classrooms." This is a lot of bosh.



Roger Babson

The other day I was talking with some fishermen here in Gloucester who are afraid of competition. They fear competition from Canada—competition from Japan—and competition among themselves. They are depending upon their labor leaders to "save them from competition." The same is true of many another city and many another product of land and sea. Yet the great railroads that cross the country, the immense steel mills, the towering grain elevators — all these have grown up out of keen competition.

I got to thinking about an incident that happened a dozen years

(Continued on page 33)

Runaway Inflation or Depression Unlikely, Says Senator Taft

Ohio Senator and Republican Congressional spokesman reiterates claim President has been given enough power to curb inflation but has failed to exercise it. Accuses President of calling session to gain political advantage and asserts it is useless to go on with Administration's policies which create inflation, such as artificially low interest rates and excessive government spending, and, at same time, try to prevent high prices by calling the police. Decries police state methods of OPA and holds new price curbs would again lead to black markets and decreased production. Holds Congress has aided housing and says easy housing credit fosters inflation. Foresees approaching price stabilization.

Senator Robert A. Taft, Senate Republican leader, issued a statement on Aug. 9, in which he summarized the work of the special session of Congress and, at same time, took occasion to repeat that restoration of the OPA would make matters worse and there are "many reasons to believe we are reaching a stabilized price level."

Robert A. Taft

The text of the statement follows:

(1) It was obvious from the time the President called a special session of Congress at 2 a.m. in the midst of the Democratic National Convention that it was called entirely for his supposed political advantage.

Senator Barkley had predicted before the Convention that a session of Congress after the two conventions would be taken up "with political bickering and political legislation and political oratory." He apparently was not consulted about the session. It is impossible to study and carry through a constructive legislative program in the midst of a political

(Continued on page 28)

What's Ahead for Banking and Business?

By ARTHUR R. UPGREN*

Professor of Economics, University of Minnesota
Associate Editorial Editor, The Minneapolis "Star"

Dr. Upgren, asserting critical task for maintaining high industrial activity and preventing depressions lies with bankers, calls attention to waves of investment and speculation activity in recent past and warns there is present danger of excessive capital investment and industrial production. Says some lines are already experiencing over-production and "we would do well to run at a little slower pace." Recommends as means of offsetting depression huge program of highway building and sound financial plans for city rebuilding.

Last year I had the very pleasant opportunity of testifying before the Joint Committee on the Economic Report, of which Senator Taft is Chairman. First I should say, as one teaching and guiding the work of graduate students, that I had great admiration for the fact that Senators Taft, O'Mahoney and John Sparkman, of this state and in my day a student on the campus, conducted these hearings at almost precisely the level of a good Ph.D. oral examination. At the same time, despite the enjoyable experience of exchanging views with such men, I would not be speaking my mind if I did

Arthur R. Upgren

(Continued on page 26)

*Address by Dr. Upgren at the Alabama Bankers Association Conference, Tuscaloosa, Ala., Aug. 10, 1948.

EDITORIAL

As We See It

Housing as an Example

Housing has obviously become a word for politicians to conjure with, or at least so most of them appear to believe. Along with the high cost of living, it was listed by the President as a matter of great urgency when he sent his major message to the special session of Congress now again returned to the political battle at home. It was one of the subjects which Congress believed it wise, apparently, not quite to ignore before it adjourned. Like transit fares in New York City and the price of electricity for use in the home and on the farm (to mention only two of them) housing has of late years become so bedeviled with professional reform, day-dreaming, and politics, that it is more than ordinarily difficult to obtain any calm, dispassionate consideration for it or, for that matter, even to be certain what the facts of the situation really are.

There can, of course, be no doubt that housing facilities are far from as plentiful or as good as could be desired. It appears to be true enough that a good

(Continued on page 28)

Trusts Continue Buying on Balance

By HENRY ANSBACHER LONG

Purchases in excess of sales during second quarter made principally by the open-end units. Stock-type funds dip into cash reserves to buy shares of oil, non-ferrous metal and railroad companies.

Investment companies continued to purchase stocks on balance during the second quarter of the year and, as during the first three months of 1948, partiality for the purchase side of the market was, with few exceptions, among the managers of the open-end funds. Even among the open-enders there was no uniformity of action and only 60% of such funds covered in this survey showed a preponderance of purchases. Although the common stock-type group used up some of their cash reserves in adding equities to their portfolios, approximately one-half of the 58 companies in the survey increased their net holdings of cash and governments.

Henry A. Long

Preference persisted for the stocks of companies in both the non-ferrous metal and petroleum groups, while the railroads were added among trust favorites. Profit-taking was noticeable, particularly in the oils, a trend which will continue if the market shows strength. Purchases of the oil stocks exceeded sales by only 30%, whereas in the preceding quarter the buying was approximately twice as heavy as the selling. Buyers also favored both the auto and auto parts and also the electrical equipment industries.

There was an increased amount of general selling to take profits and strengthen portfolios through switching operations. Such selling was not concentrated in any one group and, other than a slight disfavor for the building and construction industry, was scattered throughout the list. Certain individual issues, however, were noticeably unpopular, such as Pepsi Cola, Chesapeake and Ohio and American Tobacco. An indication of the increased volume of selling can be noted from total portfolio turnover which was 50% greater than during the previous period. The number of buying transactions exceeded sales, however, by only 30%; whereas, during the first quarter of the year, over-all purchases were almost 50% heavier than sales.

Criticism is at times fashionable and many individuals, having noted a preponderance of buying during the period under review by companies which sold on balance during the early part of the year, have levelled the charge that managements were "chasing the Dow." It is not the function of this quarterly survey to defend, but to analyze and explain management transactions. A summary of how the Lehman Corporation, one of the few closed-end companies to purchase on balance, expended 5 to 6 million dollars of its cash reserves during the period will indicate how such analysis aids in management appraisal. As the company's fiscal year ends on June 30, capital gains dividends were paid during that month, along with the dividend from regular income, totaling 5 million dollars. In addition, the trust made purchases of approximately 3 million dollars and sales of 2 millions, giving a purchase balance of 1 million for the quarterly period. Purchases were not scattered, but concentrated on a few issues to strengthen the portfolio. Most of the securities bought, other than the metals, were new commitments. This is an approximate breakdown of issues added:

Millions of Dollars	
1.3	4 oils
.4	2 pipe lines
.4	Metals
.35	American Viscose
.25	Utility bond
.3	3 miscellaneous

During the quarter Massachusetts Investment Trust made additions to its portfolio holdings of 5 million dollars, after reducing its cash reserves by 2 millions. In its semi-annual report the trustees state that "the trust has added substantially to its holdings in many companies whose securities were already represented in the portfolio." Increases were made to 30 issues representing more than 25% of the number of individual securities included in the total portfolio.

Fundamental Investors was another fund to make purchases on balance during the period. In contrast to the other open-end stock funds it did not dip into its cash reserve to invest an additional 1½ million dollars in equities. For this reason, the statement in the semi-annual report of its President, Edmund Brown, Jr., relative to the present market, is of interest.

"The present market is supported by high earnings, good yields, and the prospect of well-sustained employment and purchasing power. Shortages are still unrelieved in automobiles, steel, building and many types of heavy equipment. The prosperity is widely diffused among industrial producers and farming areas and, while the dangers inherent in further wage-price advances are apparent to all, there is no serious rift in sight. The trend of over-all production and of spendable incomes is still very strong. Accordingly, it must be assumed that a substantial investment in common stocks is still warranted; and the problem is one of selecting the more favored industries and most promising securities. For certain companies the problem of adequate capital to meet the requirements of high volumes and high prices is quite acute. The situation calls for discrimination and a preference for enterprises with ample treasury resources."

Another interesting observation is made in a letter to stockholders by John Nesbett, whose relatively new fund increased its cash reserves during the quarterly period. Under date of Aug. 3, Mr. Nesbett states: "Your management continues to believe that we are witnessing merely an interruption in the basic upward trend of stock prices. The extent of the previous rise and the over-supply of underwritings had given all security markets a case of indigestion which became acute when aggravated by the adverse news of the Berlin crisis and the Special Session of Congress. Bolstered by liberal yields, excellent earnings statements and continued good business, the recuperative period should be brief. We look for a favorable opportunity to repurchase common stocks in the very near future."

Favorite Issues

Among the stocks that the managements preferred during the period, Kennecott Copper was easily the favorite, 10 funds adding to shares already held, and two making new commitments. A total of 46,700 shares was purchased. International Nickel was next in popularity among the metals, seven companies adding it to portfolios. Three managements acquired new holdings of U. S. Smelting while a fourth added to a block already held. Eagle Picher Co. was also well liked by three funds. There was little activity in Anaconda, but 10 transactions in Phelps Dodge resulted in an evenly divided opinion, five trusts buying and a like number making sales. Among gold mining stocks two funds sold McIntyre Porcupine and two more disposed of Homestake. Opinion was divided on Dome, but one management made a new commitment in Bulolo Gold Dredging.

Although oils were still in marked favor, purchases tended to be more scattered and, as noted, profit-taking was increasing. The favorites, as in the first quarter of the year, were still Gulf of Pennsylvania and Phillips. Ten trusts bought the former and seven the latter. 20,550 shares of Continental Oil were added to the port-

(Continued on page 24)

INDEX

Articles and News **Page**

Regular Features

* Not available this week.

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, August 12, 1948

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)
Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Essentials for Economic Health

By O. B. JESNESS*

Chief, Division of Agricultural Economics, University of Minnesota

Holding economic health depends upon maintaining most effective use of our resources, Dr. Jesness says present prosperity is illusory because it results from high level of money income rather than increased output. Says this puts economy out of balance, and group pressures seeking advantages add to instability. Denies arbitrary farm price support furnishes basis of healthy economy, and asserts best solution of agricultural difficulties lies in economic health of non-agricultural sections. Concludes we can best serve our own welfare by improving world-wide productivity.

The present is a good time for appraising factors in our economic health. Production, employment and income are at high levels and it is worth while to take stock to see what adjustments and steps are necessary to keep our economic body in a healthy condition operating at a high level of efficiency.

Dr. O. B. Jesness

The basic objective of economic activity is to satisfy current or future needs and wants of man. Certain resources have been placed at man's disposal and those resources, the purposes for which they are employed, how they are used, and how the results are divided determine how fully and well man's wants are satisfied. This is elementary. Perhaps that is why we find it so easy to overlook it in our quest for improved levels of living.

An outstanding characteristic of our modern economy is the interdependence among its different parts. The rancher on the range looks to the feed lots of the corn belt to provide a finish on his cattle on the road to market. The corn belt feeder looks to the range for his feeders. Both look to the packers to take care of processing and distribution. The packers, in turn, are dependent on the farm and the ranch for their supply of livestock. Services of transportation, financing, storage and selling call upon many others. No line of activity is self-sufficient. All lines are dependent upon the consumer eventually for a market and the consumers' buying power and hence the economic welfare of all, in turn, is dependent upon the income which is derived from productive activity and employment. One of the essentials consequently is that all of the parts of our economy must be in good health. If any important segment is out of order the rest will suffer in consequence.

An outstanding essential for good health in our economy is a high level of productive activity. This is a point which we cannot afford to overlook because in it lies the answer to our quest for economic health.

By and large, groups and individuals display much more concern over their share in the distribution of the national income than they do in their part in the creation of that income. The result is that attention tends to center on prices and wage rates. The emphasis on volume of output or hours of work and production to which prices and wage rates must be applied in order to yield an income is not nearly as marked.

Basis of Economic Health

Economic health depends upon maintaining a high level of effective use of our resources. It is, therefore, in order to examine conditions affecting such use. At the present time, this use is at a high level and the nation is in a period of high money income and apparent prosperity. The term apparent is used advisedly because this property is illusory in part because the high level of money income is not altogether the result of increased output of goods and services, but is in considerable measure the consequence of a rise in prices. Additions to the national income which result from the production of more goods and services for which there is demand represent real increases in the total; those brought about through price rises represent increases in money income rather than in real income as far as the nation as a whole is concerned. If all prices changed together at the same rate, a rise in prices would be without effect. However, this is not the way in which price changes take place. Changes in prices consequently become potent forces in altering the distribution of the national income because what is price to one is cost to another. Rising prices do not add to the incomes of all. In fact, they do not add to real income unless they add to the sum total of production. Rising prices take from one to give to another.

The emphasis placed on money incomes rather than on real incomes leads to a failure to appraise inflation in its true light. The consumer, to be sure, grouses about the high cost of living but he is ever on the alert to up his prices or rates of pay. The producer complains about costs but seeks surcease in higher prices for his goods and services. Most of us are more aware of price changes than of other effects of inflation. Rising prices make debts easier to pay and many view this as being desirable. The creditor usually is seen as an opulent individual and the debtor as one at a disadvantage but most people are creditors to some degree. The holder of a life insurance policy and the dependent widow who is

(Continued on page 27)

*An address by Dr. Jesness at Fourth National Forum of Labor, Agriculture and Industry, University of Wyoming, Laramie, Wyo., Aug. 2, 1948.

Fallacies and Dangers in New Credit Curbs

By JOSEPH M. DODGE*

President, American Bankers Association
President, The Detroit Bank

ABA spokesman tells Congressional Committees of success of voluntary credit controls and anti-inflation action of banks, and, while making no objection to consumer credit curbs, criticizes imposition of increase in bank reserve requirements. Says such increase as provided in new legislation will immobilize $10 to $11 billion of bank assets and may be more likely to harm than help the economy. Holds Federal Reserve and Treasury have had ample powers to regulate credit, and warns, if business activity is to continue at present rate, there will be need for more credit. Denies over-expansion of bank credit.

In S. 2910 and H. R. 7062 which is before you for consideration there are two proposals which are of particular interest to the banking business and to the members of the American Bankers Association. One is the regulation of consumer credit referred to in Title I and the other is the increase of bank reserves referred to in Title II. I intend to direct my comments to these.

Joseph M. Dodge

The American Bankers Association has long recognized the dangers of the present inflationary situation and the importance of avoiding an excessive expansion of bank credit. The Association's program of voluntary credit control and anti-inflation action was designed to meet those dangers.

The program was presented and put into effect on January 5 of this year—seven months ago. It began with a series of 13 pilot meetings in the key cities of the country. At these meetings the program was presented to representative bankers of each area of the country. The pilot meetings were supplemented by hundreds of additional meetings held by the bankers' associations of every state, whose officers accepted the responsibility of carrying the message to the individual banks. The activity was of tremendous scope. On my part it involved six months of time and 35,000 miles of almost continuous travel, all for the purpose of carrying out this program and emphasizing its importance to the bankers of the country.

I can testify to the acceptance and cooperation of the state bankers' associations and the thousands of individual member banks. The evidence of their cooperation is apparent in the results in the first six months of this year.

Since the normal spring and early summer meeting period of the state bankers' associations has come to a close, we have supplemented this activity with a communication addressed to the chairman of the board and to the president of each bank, under date of July 29. The communication further emphasizes the need aggressively to continue the anti-inflation program. You have already received copies of this folder, which reproduces a covering letter from myself to the officers and directors of the member banks of the American Bankers Association, a letter dated July 2 from Secretary Snyder to me, and my reply to it dated July 7. I think it is important to mention that this material was prepared before the introduction of this bill, as a further step in carrying out our anti-inflation policy.

Immediately after the end of the war we engaged in a program to provide the credit necessary for reconversion and for the stimulation of peace-time production. However, when it became apparent that the inflationary situation was not well in hand we voluntarily embarked on this program to emphasize the need for selection and restriction in the extension of credit and the stimulation of savings. We urged the banks to scrutinize credit carefully, to restrict its use to loans that stimulate immediate production, to avoid increasing the pressures on consumption, to restrict its use to sound and necessary purposes, to avoid speculation, and in general to hold the obligations of borrowers well within their capacities to pay. We asked the banks to use every effort to encourage the public to invest in Treasury Savings Bonds and to increase savings deposit accounts. We emphasized the need for these actions in our meetings, through speeches, and in other forms of publicity. This was a reversal of the program that we had been engaged in, and I emphasize it because we took the voluntary method of cooperative action to meet a national problem. This program demonstrated a type of flexibility much more appropriate to the American philosophy than arbitrary controls of any nature.

*Statement by Mr. Dodge presented to the Banking and Currency Committees of Senate and House, Aug. 4, 1948.

Voluntary Control Effective

It is evident that the voluntary credit control program has been effective and successful. The increase in bank loans in the first six months of 1948 was largely in the consumer credit and mortgage fields. Commercial, industrial and agricultural loans actually were reduced about $300 000,000 as compared with the end of 1947. In the last six months of 1947, loans increased at a rate of about $10 billion a year. In the first six months of 1948 it was at a rate of about $3.4 billions a year, or roughly one-third of the rate prevailing in the last half of 1947.

Mortgage loans, backed by government guarantees, contributed substantially to the loan increase which has taken place. This is largely the result of a government policy of easy mortgage credit. The increase in consumer instalment credit for durable consumer goods goes along with increasing production and new construction. New homes must be equipped and furnished.

Bank deposits have not been increasing. They have been declining. Bank deposits have declined about $4 billion since January 1. That of itself tends to restrain lending activity. The effect has been to induce still another element of caution in bank lending. The increase in total loans has been offset by an even greater decline in investments. Thus there has been no increase in total bank credit outstanding, but an actual decrease.

A comparison of the increase in total bank loans, using the prewar year 1940 as a base, shows that the ratio of increase in total loans is less than that of the rise in the cost of living, wholesale commodity prices, or the gross nationl income.

Regulating Consumer Credit

On the subject of regulating consumer credit, which is referred to in Title I of the bill, it should be observed that instalment sales credit only would be controlled. This proposal apparently attacks only 25% of the problem. Instalment sales credit represents less than $3½ billion of the present $14 billion total of consumer credit. That $3½ billion includes FHA Title I loans, which are government-sponsored credit.

It should also be pointed out that if consumer credit instalment sales are restricted by the proposed regulation, manufacturers or distributors may finance such sales by the use of regular commercial credit. A contraction of consumer credit may thus increase the use of regular commercial credit.

Most consumer durable goods with the notable exception of automobiles, are now in relatively adequate supply. The reimposition of regulations on consumer credit would have a tendency to give preference to those who can meet the larger down payments required. The less fortunate individual, whose need is as great and who is worthy of credit, may be deprived of the article he wants.

The banks of the country now use conservative instalment credit terms, such as those suggested by the American Bankers Association, which approximate the terms which prevailed under Regulation W. A return to Regulation W will not result in terms appreciably different than those now being used by the banks. For that reason we have no serious objection to this proposal if the Congress believes it should be enacted.

Whatever loose credit of this type there may be is extended outside of the banks. As was pointed out earlier, the proposal is limited to an effect on about 25% of what is commonly referred to as consumer credit. It is our view that if it is intended to use this regulatory approach to consumer credit as an anti-inflation act, it should cover the whole field of consumer credit.

Use of Bank Credit Not Inflationary

There is no evidence, and I believe no testimony has been submitted, which indicates that the use of bank credit has been an important factor in creating the present inflationary situation or that there is any current excessive expansion of loans. The proposals and the discussions of the problem of curtailing credit have been based on a possible inflationary increase in the use of bank credit and assumptions about what could happen, not on the facts as they are today.

To meet these assumptions about what could happen, the proposal is made in Title II that the Federal Reserve Board be given authority to increase reserves against demand deposits of member banks by 10% thereof, and time deposits by 4% thereof. I am not sure everyone understands exactly what this means. I have seen references to an increase of 10% and further assumptions that this means an increase of 10% in existing reserves. This percentage refers to deposits, and means an increase in reserves of 10% of total demand deposits. It should be emphasized and clearly understood

(Continued on page 17)

British Inflation and Deflation Fears

By PAUL EINZIG

London observer reports mingled fears of both inflation and deflation in Britain, and both may occur in different segments of the economy at the same time. Holds, however, inflation fears are uppermost, because of international tension and resulting impending costs of rearmament.

LONDON, ENGLAND.—British experts and the intelligent section of the British public are in a curious and probably unprecedented position. They are seriously worried by the possibility of both inflation and deflation at the same time. Seldom if ever is a country free of fears of either inflation or deflation. It also frequently happens during periods of comparative stability that at any given moment one section of opinion fears inflation while at the same moment another section is equally apprehensive of deflation. The reason why the present situation is unusual is that the same people are afraid of both inflation and deflation at the same time.

Dr. Paul Einzig

It is easy to make almost anybody's flesh creep by marshalling up the impressive array of facts pointing towards inflation in the near future. In spite of Sir Stafford Cripp's anti-inflationary policy wages are still rising, and so are profits in many respects. Most labor unions have not abandoned their claims for higher wages, for the simple reason that if they did the union officials would lose their influence over the rank and file of members who would then prefer to listen to the Communist "shop-stewards" agitating for wages increases. It is true, there is now unemployment in certain branches of activity, but such is the scarcity of labor in other branches that the unemployed can easily be absorbed in a very short time. So there is no real decline in the purchasing power of consumers even though they are now more cautions in exercising it than they were until a few months ago. There is a budget surplus, but if, as now seems probable, Britain should have to embark on large-scale national defense expenditure this surplus would soon give way to a deficit. Above all, there is much uneasiness about the possibility of Britain being forced into inflation through the continued upward trend in the United States. The efforts to check inflation there are followed with much interest from this side, as it is assumed that if those efforts should fail Britain would be unable to isolate herself from the American inflationary trend.

At the same time, there is equal uneasiness about the possibility of deflation. It is now confidently expected that the harvest will be very good, and even though this is very good news the possibility of a big crop resulting in a slump of prices is causing much concern. In Britain itself a fall of grain prices would not in itself cause an all-around fall of prices, for the simple reason that it would merely lead to a reduction of the amount the Government has to spend on food subsidies. On the other hand, it is feared that the purchasing power of the agricultural countries might be seriously affected by lower produce prices, and this again would accentuate the trend towards a buyer's market.

Fears are also entertained about the possibility of a slump in the United States as a reaction to the present upward trend, slump which may not be confined to the mere liquidation of the excesses of the boom. Although immediately after the war it was widely believed that Britain might be able to isolate herself from business trends in the United States such hopes have now been abandoned.

Finally, there is a widespread feeling that the Government's anti-inflationary drive might be carried too far, and would more than offset the trends in the opposite direction. News about the curtailment of spending by the public is pouring in from every side. Even though there is no evidence of any contraction of purchasing power, most people are inclined to be more cautious, and refuse to pay the top prices reached as a result of buying pressure during recent years. There are now large unsold surpluses of manufactures accumulating in many lines. The partial failure of the export drive has resulted in the release for domestic consumption of large quantities of goods primarily intended for export; such goods have come to be known under the name of "frustrated exports." All this makes for lower prices, and carries the possibilities of a deflationary spiral.

Generally speaking, inflation fears outweigh deflation fears. For one thing, after years of upward trend a certain amount of deflation would be actually welcome, so long as it remains within moderate limits. Besides, owing to internal as well as international political considerations inflation is considered more likely than deflation. From an internal political point of view the Government could ill afford a deflationary depression shortly before the next general election, and it is expected that reflationary measures would be adopted if there should be a risk of excessive deflation. From an international political point of view, the tension with the Soviet Union is expected to remain more or less permanent, and rearmament is considered a necessity. This alone, it is believed, would be sufficient to nip in the bud any excessive deflation. As unfortunately the prospects are that the international tension will increase in the long run, rearmament is expected to increase likewise. This is considered by many people to be the basic fact of the situation, so that even if there should be deflation in the near future a resumption of inflation is considered almost certain in the more distant future.

L. O. Thomas Forms Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTIC CITY, N. J.—Luther O. Thomas has formed L. O. Thomas & Co. with offices in the Boardwalk Bank Building to engage in the securities business. He was formerly local manager for Fitzgerald & Co., Inc., and prior thereto conducted his own investment firm in Atlantic City.

With Merrill, Lynch Pierce Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Eugenia L. Wilburn has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 23 North Pryor Street.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Industrial production for the country as a whole held to a very high level the past week. Some minor strikes were reported in scattered sections of the nation and they were to a degree counterbalanced by the ability of industry to obtain more readily some raw materials that were heretofore in very short supply. Employment and payrolls, too, continued at very high levels, though some increase for the week in unemployment claims was reported in limited areas.

* * *

A sharp rise was reported by the Department of Commerce this week in personal income in the United States for the first six months of 1948. It disclosed that such income was running at an annual rate of about $18,000,000,000 higher than the first half of 1947, or $208,100,000,000 compared with $190,300,000,000 for the corresponding period of 1947.

The annual rate advanced to a record of $211,900,000,000 in June, from $207,200,000,000 in May. This rate compares with the previous high of $209,400,000,000 in January of this year. Figures are adjusted for seasonal variation.

The reasons for this increase, say Commerce Department officials, were the absence of "major labor-management disputes, the effects of third-round wage increases in some of the durable-goods industries and higher prices received by farmers for livestock products."

* * *

While the average hourly earnings of production workers in 25 manufacturing industries climbed to a new high record in May, average weekly earnings declined, according to the National Industrial Conference Board.

The hourly average was slightly more than $1.43 for the 28 consecutive monthly advance, the Board stated. The increase in average hourly earnings from April to May, it revealed, was 0.7%, or the largest monthly rise since September, 1947.

The survey showed higher hourly average earnings in May in 21 manufacturing industries. In four—the boot and shoe, northern cotton, silk and meat packing industries—there were declines.

However, the Board reported, there was a considerable drop in total hours worked, and as a result, average weekly earnings of production workers dropped to $56.86 in May. This was a decline of 24 cents from the April average.

* * *

The special session of the Eightieth Congress came to an end on Saturday evening last, following 13 days of political bickering. The extra session produced four bills chief among which were the Republican-sponsored housing and credit control measures. Despite the opinions of Senators Hatch, of New Mexico, and Lucas, of Illinois, Chairman of the Democratic Campaign Speakers' Committee and assistant Democratic leader, respectively, that the bills were inadequate to meet the situation, they urged the President to sign them, since they represented some slight improvement "over what we now have."

In addition to the four bills the special session sent along to Mr. Truman for his signature—the housing and anti-inflation measures the UN loan and the housing-autos-for-veterans-appropriation—the lawmakers enacted a fifth that requires no presidential approval. It appropriated the money to pay the Senators and Representatives 10¢ a mile for their trip back to Washington and home again. The amount came to $171,000 for the House and $51,000 for the Senate.

* * *

Consumer resistance to increased prices was reflected in slightly reduced unit volume of retail sales in some lines during the past week. Dollar volume was slightly above that of the previous week, and compared favorably with that of the corresponding week a year ago. Interest in some types of soft goods declined slightly for the week.

New order volume remained without much change from the previous week, but total wholesale dollar volume was slightly above that of the corresponding week of 1947. Buyer interest in Fall merchandise increased moderately in some localities, the demand for Summer merchandise dropped considerably. Total food volume was fractionally less than in the preceding week.

STEEL INGOT CAPACITY SCHEDULED AT SLIGHT INCREASE FOR CURRENT WEEK

Gray marketeers have been given a new lease on life by the steel industry's switch to f.o.b. mill sales. And just as motor car demand can be gaged by used car prices so steel demand can be measured by current gray market quotations, "The Iron Age," national metalworking weekly, states in its current review of the steel trade.

The f.o.b. mill pricing system forced upon steel companies makes their job of policing their business infinitely more difficult than ever, this trade authority points out. Previously the steel producer quoted a delivered price. He routed the shipment and was responsible for it until it was delivered, but under the present system the buyer can

(Continued on page 31)

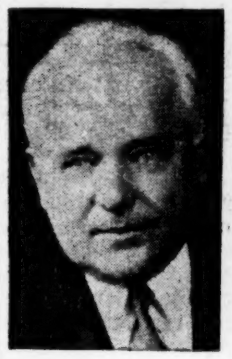
Money Is No Mystery

By THOMAS I. PARKINSON*

President, The Equitable Life Assurance Society of the U. S.

Mr. Parkinson analyzes composition of U. S. money and ascribes increase in supply since war to gold purchases and expanding bank deposits. Lays power of banks to meet reserve requirements to Treasury's price support of government bonds, which enables them to convert these obligations into cash. Concludes if this procedure were changed current boom would be interrupted.

There is really no mystery about money. There might have been one when we were on the gold standard, but all that has long since been abandoned. What we use for money in this country can be recognized and understood by anyone. We have $2 billion of coins, most of them silver, $26 billion of paper money which are the unsecured promises of the Government to pay whatever is a legal tender dollar, and we have $140 billion of bank deposits. What is there about that which is in any way mysterious?



T. I. Parkinson

There is no mystery about our money now except what will be its purchasing value in the future. That depends principally on how much money we have and whether we continue to increase our money supply. We increased it from 1940 to 1946 from $60 billion to $150 billion and we have increased it since 1946 to $170 billion. That increase did not take place in the volume of coins or the volume of paper money in circulation. It is true we have increased our silver coins since 1940, but not since 1946. It is likewise true that we have increased the volume of paper money since 1940, but not since 1946. The real increase in our money supply has been in bank deposits.

We were told that when expansion of Government debt ended with the war and the Government began paying off some of its debt, the result would be a reduction in bank-held bonds in bank deposits and in that portion of our money supply which is in the form of bank deposits. But the simple fact is that though the Government has been issuing no new bonds eligible for bank holdings and though the Government has since Jan. 1, 1946, reduced that portion of its debt eligible for bank holding by some $35 billion, the money supply, and especially that portion of it which is in the form of bank deposits, has increased from approximately $150 billion at the beginning of 1946 to near $170 billion at the present time. Certainly those figures would indicate that something has been at work which was not expected, or that someone has not been at work who was expected to formulate sound fiscal policies.

Increasing Bank Deposits

Bank deposits which form so large a part of the modern money supply are increased in two important ways. One is by gold purchase, not because of the purchase or because of the price paid, but because of the method of purchase.

"OBSERVATIONS"

A. Wilfred May's article was not available this week.

Under existing law nobody but the Government can own gold in this country except a foreign government or its central bank. How much gold we buy depends not on any fixed policy of ours but on how much sellers offer us. Under our present procedure for purchase the seller of gold receives a bank deposit in payment at the fixed price of $35 an ounce. That immediately increases bank deposits by the amount of the purchase price.

The gold is turned over to the Government by the Federal Reserve Bank, which receives from the Treasury a check for the price. The Treasury sends the gold to Fort Knox for storage, but at the same time makes a book entry indicating that the Federal Reserve Bank is entitled to a gold certificate in the amount of the purchase price. Upon this entry the Federal Reserve Bank restores to the Government's account with it the amount of the Treasury's check in payment for the gold.

It all amounts to this, that the Treasury gets the gold for nothing except its book entry, and the seller of the gold has a bank deposit upon which he can draw and which when drawn upon enters into the general money supply of the country.

Since the beginning of this year we have bought $800 million of gold, thereby immediately increasing our money supply by that amount, and in addition providing the banks with the means of further increases to the extent of $3 billion. All this is presently uncontrolled and lies in the discretion of sellers of gold and the banks.

The other method by which bank deposits are currently increased is by new bank loans or bank purchases of assets, principally bonds. The commercial banks make such loans or such purchases by giving the borrower or seller a bank deposit for the amount of the loan or the purchase price. That means that the bank simply creates new bank deposits which add to the money supply.

The reason that such additions to the money supply are of impor-

(Continued on page 39)

*A release by Mr. Parkinson through the Continental Press Syndicate, Brightwaters, N. Y.

J. Arthur Warner Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS. — Lambert A. Reavey has become affiliated with J. Arthur Warner & Co., Third National Bank Building. He was previously with Kidder, Peabody & Co.

Our Economic Foreign Policy

By WINTHROP G. BROWN*

Director, Office of International Trade Policy, Department of State

Stressing importance of firm and stable economic foreign policy, State Department spokesman points out America's stake in promoting free and multilateral international trade. Cites actions taken such as participation in World Bank and International Monetary Fund and organization of ITO. Says ITO Charter reflects policy each nation should give to others, equal treatment in international commerce, whether having private enterprise or state trading, but admits it is no panacea for world economic ills.

INTRODUCTION

Some weeks ago, in testifying before a committee of Congress, Secretary Marshall said, "It is the economic factors which I think will large determine the great issues in the international field in times of peace and will make a pattern for peace or for possible war."

Winthrop G. Brown

And, a few days earlier, in speaking to the United States Chamber of Commerce, he stressed the vital importance of continuity in our economic foreign policy if we are to maintain our leadership in world affairs.

I therefore, particularly welcome the opportunity to discuss, with so representative a group as this, certain aspects of the economic foreign policy of the United States—to outline to you some of the major problems which we face, to tell you some of the things we have done to try to meet them, and to commend to you a program for future action.

American economic foreign policy has its roots deep in the basic philosophy of the founders of this nation. It is predicated upon the twin concepts of equal opportunity in foreign trade and the necessity for expanding the production and interchange of goods and services. It asserts in the 20th century, as it did in the 18th, that there are still great areas for that expansion. And its essential objective is now, as it was at the birth of our nation, limitation or elimination of restrictions upon that expansion and upon that equality of opportunity.

World conditions today make the attainment of these ends more difficult. World trade is badly out of balance. Many nations do not believe in free competition as we do. Nationalism is rampant in many quarters of the world. Such conditions require adaptation of our principles to accommodate differing problems and opinions of other nations with which we trade. But they do not alter the fundamental philosophy with which we approach the problem.

Origin of Our Economic Foreign Policy

From the very beginning of our national existence, international trade has played a major role in our economic development. On June 12, 1776, three weeks before the Declaration of Independence, the Continental Congress created a special committee to study international trade in relation to our foreign policy. The Continental Congress must have been very busy in that historic summer of 1776, but the importance of international trade was so great that it assigned no less eminent men than Benjamin Franklin, John Adams, and Robert Morris to the committee.

The committee prepared a project, known to history as the Plan of 1776, that was adopted by the Continental Congress in the fall of that year and that served as a guide for our commercial treaties for many years to come. This Plan proposed an open-door trade policy that, in today's language, might be called multilateralism. It contemplated that Americans would trade with France (or other countries), free of the arbitrary restrictions imposed upon the colonies by England to divert colonial trade to or through the mother country in an early version of the Empire preference system. It proposed that United States citizens might trade with France (or other countries) without paying any higher "duties or imposts in the ports, havens, roads, countries, cities or towns" of France than French subjects paid. It proposed that American citizens should have the same "rights, liberties and privileges" in France that French citizens enjoyed. It proposed also that exports from the French West Indies should pay no higher export duties when going to the United States than when going to France.

Here, then, are the beginnings of basic conceptions which underlie our economic foreign policy today. The founders of the Republic knew that international trade was of vital importance to this country; that an open-door policy between countries was essential for trade to expand; and that certain principles or rules were necessary for an orderly and full development of international trade. Experience and political insight told them that economic foreign policy cannot be dissociated from political foreign policy. Peace and trade are the two sides of the same coin.

America's Stake in International Trade

Our foreign trade has expanded more than a thousandfold since the beginnings of the Republic. We are now the world's principal foreign trading country. Our exports are larger than those of any other country. Our imports are second only to those of the United Kingdom. Our total foreign trade in 1947 was $20 billion.

Such are the origins of our policy, and such the magnitude of the matters with which we are dealing. What are some of the problems which we face today?

The Choice After World War II

The most destructive war in history left in its wake economic conditions that were chaotic in the extreme. Not only was there tremendous physical destruction of facilities for production, transportation and communications, but there was also destruction of intangibles, such as liquidation of foreign investments and breaking of business channels. Shortages of food, shelter, clothing, fertilizer, raw materials and machinery, are still the rule. And during the war, shortages of essentials and the necessity for total mobilization brought techniques for the control of trade by governments to a high degree of perfection. In almost every country imports and exports are being controlled by government as to quantity, source and destination. International trade has been turning towards bilateralism and control.

We and other nations had then to choose between two courses of action. Should each nation row its own boat without regard to what others were doing and adopt uncoordinated short-term measures designed to gain immediate individual advantages at the expense of other nations?

We followed this path after World War I. The United States raised its tariffs successively in 1921, 1922 and 1930, the British Empire followed suit by raising tariffs and instituting Empire preferences, and the Continental European countries restricted imports by quotas. The United States declined to join the League of Nations. International trade declined. Economic depression developed. Economic instability weakened the democratic middle classes in many countries. Political instability created new tensions. We did not like what we found at the end of this path.

Or should we take bold and cooperative steps to try to reverse the trend towards bilateralism and control, to help friendly nations back to their feet and to start trading nations moving again in the direction of open, multilateral international trade?

There was no doubt as to which course was more consonant with the Plan and spirit of 1776.

Action Taken

So we and other nations chose the course of common action. We formed the United Nations, the International Bank and the International Monetary Fund, and the Food and Agriculture Organization. And the United States initiated action on a further threefold front; to reach agreement on rules which would clear the way for the sound development of international trade; to begin the actual reduction of trade barriers; to help put Europe on its feet.

First, in December, 1945, the United States invited a number of important and representative nations to negotiate with it and with each other for the reduction of tariffs and the regulation and limitation of the use of other trade barriers. The invitations were accepted. The negotiations took place at Geneva in the spring and summer of 1947. They resulted in the General Agreement on Tariffs and Trade—the most comprehensive tariff agreement in history—which has been put into effect by 22 out of the 23 countries involved. This agreement sets the tariff treatment for over half of the trade of the entire world.

Second, in December, 1945, the United States proposed for the consideration of the peoples of the world certain rules to govern the conduct of international trade and suggested that nations meet to consider and adopt them.

This action also found a ready response. One of the first acts of the Economic and Social Council of the United Nations early in 1946 was to appoint a committee of 18 nations to prepare for a United Nations Conference on Trade and Employment. This committee adopted as the basis for its deliberation the *"Suggested Charter for an International Trade Organization,"* published in September, 1946, by the United States. At London in the fall of 1946, at Geneva in the spring and summer of 1947 and at Havana in the succeeding fall and winter, the *Charter* has been debated and refined and improved. At Havana,

(Continued on page 30)

*An address by Mr. Brown before the Fourth National Forum of Labor, Agriculture and Industry, University of Wyoming, Laramie, Wyo., Aug. 2, 1948.

The Problem of the Cross-Rates Of Exchange*

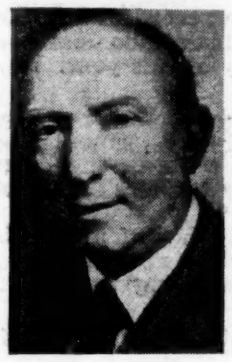
By C. BRESCIANI TURRONI

Chairman of Banco di Roma

Executive Director, International Bank for Reconstruction and Development

Italian banker explains existence of unbalance between "cross-rates" and parity rates of exchange and contends they arise from vast network of bilateral exchange and trade agreements. Points out impracticability of establishing balance between "cross-rates" and parity rates, because of deformation of trade currents caused by bilateral agreements, and criticizes Bretton Woods international monetary system for attempting to maintain exchange parities under these conditions.

The expression "cross-rate" is often used now to indicate the exchange rate between two foreign currencies resulting in any given country from the direct quotations of each currency in the currency of the country considered. For instance, at the present moment (April 22, 1948) the export dollar is quoted at Lire 574 in Milan and the sterling at Lire 1,861. Consequently, the dollar-sterling cross-rate in Milan is 3.24 dollars to the sterling.



Costantino Bresciani

Instead the official parity of the sterling has been fixed by the International Monetary Fund at 4.03 dollars.

This difference between the official parity of a currency and its cross-rates, established in the countries where there is a free market, is undoubtedly a sign of the lack of balance of exchange rates. This discrepancy is symptomatic of the present international trade situation, which is very far from that state of many-sided exchanges which, it was hoped, would be re-established after the end of the second World War.

In order to explain the connection between this lack of balance of the exchange rates and the existence of a vast network of bilateral agreements, I shall give a simple example. Let us take three countries, A, B, and C, each of which trades with the other two on the basis of bilateral transactions. Now let us suppose that all three countries have a currency system consisting of paper money not convertible into gold and, further, that they have all achieved a certain level of home prices unperturbed by inflation or deflation and that both the quantity and type of the goods imported or exported and the exchange rates for the various currencies are the result of transactions effected freely on the markets.

In view of the foregoing suppositions, there are three non-communicating markets: AB, AC and BC, on each of which, if the bilateral trade is free, there will come into being a balanced exchange of the various currencies, that is to say the exchange at which the bilateral trade balances are in equilibrium. Let us suppose, for instance, that trade relations between B and C form an equilibrium exchange of 7 units of B's currency to one unit of C's currency. Further, let us suppose that the equilibrium of A's trade balance with B establishes an exchange of 50 units of A's currency to one unit of B's and that, at the exchange of 250 units of A's currency for one unit of C's, there is a similar equilibrium in trade relations between A and C. This being the position it is easy to see that the cross-rate resulting in A from the ratio between the quotation for C's currency and the quotation for B's currency (250:5) is different from the exchange rate of 7 deriving from trade relations between B and C.

II

Let us now suppose that a change occurs in the situation first described. The three currencies may be converted into one another and arbitrage is possible. What happens then, for instance, is that if A needs to buy some of B's currency to pay for imports from B, it will find more advantageous to purchase C's currency and buy B's currency with it in C. This means that the value of C's currency will go up in A, whereas the value of B's currency will drop; in C changes of an opposite nature will occur. The arbitrage transactions occurring not only in A, but also in the other two countries, will continue, modifying the rates of exchange previously established by bilateral trade exchanges until a general balance of exchange rates is reached, namely until the ratio between the value of C's currency and that of B's is everywhere the same, whether it results directly from trade exchanges between C and B or indirectly from quotations of C's and B's currencies in A's currency. For instance, the following situation will arise: in country A, one unit of B's currency and one unit of C's currency are equal to 45 and 270 units respectively of A's currency; in countries B and C one unit of C's currency is equal to 6 units of B's currency. Obviously this shifting of exchange rates cannot fail to affect trade transactions among the three countries. In fact, if in previous relations between B and C the equilibrium of the balance of trade established an exchange rate of 7, now that this rate of exchange has become 6, C's imports from B will be lower than C's exports to B, namely B will have a deficit in its trade balance with C. On the other hand, at an exchange of 45 units of A's currency for one unit of B's money (instead of 50 as before) exports from B to A will be stimulated, while B's imports from A will be reduced, namely there will be a credit balance in B's favor. At an exchange rate of 270 (instead of 250) units of A's currency for one unit of C's currency, A will export to C

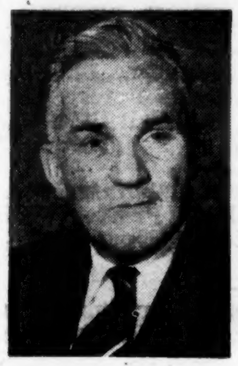
(Continued on page 36)

*Reprinted from the "Review of the Economic Conditions in Italy," published by the Banco di Roma May, 1948. In this article the author expresses his own personal opinons, which have nothing whatsoever to do with his position as Executive Director of the World Bank. The theoretical part of the article sums up a study by the author published by the Milan University in 1943 ("I cambi esteri in regime di carta-moneta").

From Washington Ahead of the News

By CARLISLE BARGERON

For the past year, or perhaps longer, ever since it has been apparent that politically Mr. Truman was a dead duck, it has been a common experience of Washington newspaper correspondents to be asked: "But don't you think he will get us into war to save himself?"



Carlisle Bargeron

This writer has had the question asked by people of all shades of political opinion. Manifestly, they were thinking subconsciously that this is what Roosevelt did to justify a third term. The Democrats among my questioners would not have dared admit this; probably they would not have admitted it to themselves.

My unvarying answer has been that the very reason people were asking this question, in such numbers, militated against Mr. Truman doing any such thing. If the country went into war rightly or wrongly against any such prevailing cynical attitude then his defeat would undoubtedly be worse than is now fairly generally expected.

However this may be, this is to report that instead of Mr. Truman confronting us with a war in an effort to get reelected, it is becoming increasingly plain that he hopes to present us with a peace—maybe one of those peaces in our time. This is the way the Russian negotiations are moving.

Our government is obviously backtracking and I am not trying to be captious. The reactionary that I am, I have thought that the whole Russian military menace grew out of our government's pride. Obviously, it has been truly embarrassing to our global statesmen who led us through World War II, to find at the end that a more monstrous fiend than Hitler, whom they had crusaded against, now lay astride Europe. It was embarrassing to these statesmen but not to the despised so-called isolationists. It was just as they had said it would be. So it behooved the global-minded boys, to keep the so-called isolationists from saying "I told you so," to shake angry fists at Russia and and say, "We don't intend to permit you to undo what we have so greatly done; we intend to finish what we started."

More recently, however, Mr. Truman and his advisers have seemingly become convinced that regardless of the merits or demerits of World War II, the people don't want World War III. They are coming to hear more and more such statements as "What the hell does it matter if Russia does take over the European continent; what difference does it make if Stalin has Berlin?"

I am not defending the logic of these statements. They are, however, coming more and more to reflect the public's attitude, or so Mr. Truman and his advisers think.

So they are moving toward peace. It may be at the price of appeasement, of unblushingly giving in to the Soviets. Very likely it will be just that. But the harassed Truman will say to any critics, in effect: "Well, what do you want—war?".

On the part of those who do not want war, who are not surprised at the turn of events but who think that nevertheless there should be some punishment of those who led us into World War II only to get into this mess, there is the consolation that the whole New Deal is by way of being repudiated. Those of this attitude may defeat their ends if they become too jeering at the new course of appeasement which Mr. Truman seems to be moving into. They may be mistaken for warmongers when the attitude of the populace today is not one of bellicosity in the least.

Insofar as the Republican politicoes are concerned, they had better proceed very cautiously, indeed. Because it may be recalled that their Senator Vandenberg was in the forefront of the forces that prevailed upon the Administration to "get tough" with Stalin. It was humiliating trying to "understand" him, of course, but the humiliation was with those guiders of our destiny who made him the menace he is.

It is going to be just as humiliating, perhaps doubly so, in the experience we are apparently about to have. If everything goes as the Administration hopes, the blockade of Berlin will be lifted but then in the ensuing Four Power Conference, more important concessions will be made to Stalin in regard to the administration of Germany and of Continental Europe as a whole. On that it is inconceivable that we shall not come out on the very short end of the stick.

At least, this will be the case on paper and temporarily. I have long believed, and more recent indications support me, that in due time the sundry little dictators of Eastern Europe, of whom every little country over there breeds a lot, will take care of Stalin. They do not look upon him as the great builder, the great scientist, the great atomic bomb expert, the great military giant that we Americans have been taught to believe he is. They look upon him and his great army of industrialists, scientists and fighting men as the semi-civilized, inefficient people they are. These little dictators live closer and know more about the Russians than we.

I do think, though, that we should abolish the poll tax and set up an FEPC so we can impress these pohunks that we are really democratic. I think we should change our institutions, if necessary, to convince them of this. It is so important what they think of us—except of course, that thinking is the least thing they do.

G. H. Walker & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—John V. Readey is now with G. H. Walker & Co., 503 Locust Street, members of the New York and St. Louis Stock Exchanges. In the past Mr. Readey was with Reynolds & Co.

Joins Alex. Brown Staff

(Special to THE FINANCIAL CHRONICLE)

WINSTON-SALEM, N. C.—James E. Holmes, Jr., is now with Alex. Brown & Sons, O'Hanlon Bldg. He was formerly Winston-Salem representative for First Securities Corp.

With Harriman Ripley & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Henry R. Flanders has been added to the staff of Harriman Ripley & Co., Incorporated, 50 Federal Street.

The World Requires a Sound United States Economy

By ALF M. LANDON*

Former Republican Party Candidate for President

Ex-Governor Landon scores President Truman's domestic and foreign policies and accuses Administration of bungling in foreign affairs. Says President can halt inflation without additional legislation and criticizes low interest rate policy. Points out as remedies: (1) frugal government spending; (2) overhauling of monetary policy; (3) restraint on international spending; and (4) consumer credit controls. Asserts agricultural price support program keeps up prices.

If the President really wants to bring the cost of living under control he could do it without the passage of a single line of new legislation. If his purpose is really to stop inflation, the program to be adopted immediately would be: (1) Have the Federal Reserve Board clamp the brakes on bank credit expansion. The Federal Reserve Board—for which the President asks greater authority—has plenty of power, under existing law, to bring credit expansion to a halt. The trouble is that it cannot do that without tightening interest rates and it doesn't have the courage to take that step.

Alf M. Landon

(2) Cut government expenditures to the bone and use the proceeds to pay off bank held public debt.

(3) Order cessation of all government buying that is not absolutely necessary and all government construction that can be postponed.

(4) Use the power of his office to make clear to the public that inflation has gone just as far as it is going to be permitted to go.

State in the most positive terms that henceforth he is going to use his influence every way possible to reduce government support of wages and government support of food prices.

With that kind of deflationary program no need worry about high business profits. All of which is pretty meaningless because the country basically does not want a painful program of that kind. Every group wants deflation for the other fellows but not for itself.

After 16 years of superficial New Deal propaganda people still believe they can eat their cake and have it too. Therefore we are inviting economic and political disaster.

America today is the center of the world's gravity and the fortress of freedom. We must prepare ourselves for the long pull of life in an army camp. I return to an old theme when I say that, as the strongest nation in the world, we can hardly hope to lead the day to peace unless we can be sound economically. A stable economy is essential to a sound government. But how can we avoid a "bust"—or as Marriner Eccles put it a "deflation"—in the United States of America when anyone attempting to use reason in the free spending of public funds internationally, is hysterically denounced as an "isolationist" and anyone attempting to use reason in the free spending of public funds at home is denounced as a "reactionary."

Government is like every business—every farm—every individual. There are many daily questions of expenditures of money and labor. They cannot all be decided at once. Decisions must be reached regarding priority. This is always a difficult choice in family and business life.

That is the question that must be constantly decided by the President and the Congress. There are so many things to be done that if we at tempt to do too many of them at once we will break the back of the American taxpayer and ruin our country with a "funny money economy." Yet this is the policy we are following.

Cannot Finance European Economy

As powerful, as wealthy and as productive as the United States of America is, we simply cannot finance European economic recovery—the rebuilding of Europe's military establishments—the rebuilding of our own military security—the rebuilding of the Philippines—and at the same time embark on an expanding field of government spending at home with additional cost of billions of dollars—without ruining ourselves by inflation. There is a limit to what even Americans can do and we have reached that limit.

I fully realize that there are factors to a strong and sound nation other than a stable economy—a comprehensive educational program—decent racial relations—national health programs—government policies—that will keep economic opportunities circulating throughout the entire blood stream. When nations have limited opportunities to a few chosen groups within a people—those nations have crumbled.

In the final analysis, all social legislation depends on a sound and stable national economy. We cannot do all that is both desirable and essential at once, without weakening the whole structure. Our decisions today are based on the unhappy prospect of being compelled to live, for a time at least, in an armed camp.

The British economy is, temporarily at least, no longer a major factor in the world. France never recovered from the First World War, not to speak of the devastation done by the Second.

If America is able to maintain a sound economy for another decade, there is a chance that our influence, our surplus goods and the markets we create for the goods of others, will permit something like a world recovery and a restoration of some sort of balance. If we fail to do so there will be a general collapse, with the Communists endeavoring to take

(Continued on page 42)

*An address by Mr. Landon before World Affairs Institute, Y. M. C. A. Conference Ground, Estes Park, Colo., Aug. 8, 1948.

The Problems of Fiscal Policy In Inflation

By WILLIAM H. STEAD*
Vice-President, Federal Reserve Bank of St. Louis

Mid-West Reserve Bank official analyzes various aspects of fiscal policy as they affect money supply and inflation. Holds tools in fiscal policy for fighting inflation are: (1) increased personal and corporate taxes; (2) restrained and restricted goverment expenditures; and (3) proper utilization of Treasury surplus in debt management. Holds inflationary pressures are likely to rise further because of increasing governmental expenditures for foreign assistance and expanded defense program. Calls for greater understanding of impacts of fiscal policy and criticizes recent Federal tax reductions.

I.

The term fiscal policy today can be defined as those governmental decisions relating to revenue, expenditures and the debt with regard to the effect they have on total business activity and employment and price levels. It most certainly includes state and local governments' policies as to their revenue, payments and obligations; but is seldom so used because taken separately their budgets lack sufficient size to influence the whole economy. Therefore, unless otherwise indicated, the fiscal policy referred to will be that of the Federal Government.

William H. Stead

II.

How does fiscal policy operate? Primarily it works through three major implements, government spending, taxation and debt management, to affect the level of demand in the economy. Very briefly: production and employment, and thus income, depend upon the markets for the goods produced. Without such effective demand in sufficient volume to leave a profit, production will not be forthcoming and both human and material resources will be unemployed. Conversely, unless such effective demand remains in line with the available capacity to produce, assuming a high level of employment, prices will rise, dislocations in cost-price relationships will creep in and, in general, the self-reinforcing factors of the business cycle will be brought into play and inflation will begin. A major objective of fiscal policy in its pursuit of economic stability is, then, to secure and to maintain a sufficiently high, but not excessive, level of expenditures in the economy—both public and private—to clear the market at high levels of production.

The case for fiscal policy can be stated in this way:

(1) The thesis that production creates its own markets is erroneous.

(2) Income, once received, may or may not be returned to the expenditure stream.

(3) The expenditures stream can be swollen beyond current income by present use of past savings or newly created bank credit.

(4) Fiscal policies may be adopted which curtail or increase the total demand for goods and services, whichever is needed.

For example: in a depression when current savings exceed investment expenditures, the total expenditures fail to equal total incomes and demand will shrink markets will become insufficient to sustain the income level, and production will decline until, at a lower level of income and employment, total outlays on consumption and investment will again equal current income. Whenever private current income and out-

(Continued on page 32)

*An address by Mr. Stead before the Fourth National Forum on Labor, Agriculture and Industry, University of Wyoming, Laramie, Wyo., Aug. 4, 1948.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Air Conditioning Industry—Study particularly covering **York Corporation, Carrier Corporation, Frick Company, Thrane Company,** and **United States Air Conditioning Corporation**—Bache & Co., 36 Wall Street, New York 5, N. Y.

Graphic Bond Review—Charts on 7 averages, 27 foreign bonds, 219 domestic bonds, and basic statistics for each—$4 per issue—Graphic Economics, 60 East 42nd Street, New York 17, N. Y.

Growth Factor in Airline Passenger Traffic—Analysis—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Insurance Stocks—Discussion of anomalous position of stocks in current issue of "Bank and Insurance Stock Digests"—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

In the same issue are data on **Firemen's of Newark, Great American, American Alliance Insurance Co., National Casualty Company, Employers Group Associates.**

Market Survey — Analysis — Abraham & Co., 120 Broadway, New York 5, N. Y. Contained in the survey are brief remarks on **United Corp., American Cyanamid, Thompson Products, Inc., U. S. Industrial Chemicals,** and **Carrier Corporation.**

Quotations—Leaflets on United States Government obligations, preferred stocks, public utility bonds, and State and municipal bonds.—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Railroad Developments — Leaflet—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Railroad Income Bonds—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is a detailed analysis of the current situation and outlook for **Pepsi-Cola Co.**

Security and Industry Survey—August issue of quarterly analytical guide for investors—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Stern Facts and Figures—Memorandum containing data on **Paramount Pictures, Copperweld Steel, Rayonier**—Stern & Co., 25 Broad Street, New York 4, N. Y.

Also available is a memorandum on **British Securities.**

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Aberdeen Petroleum Corporation—Special Report—Bonner & Bonner, Inc., 120 Broadway, New York 5, N. Y.

Associated Transport, Inc.—Circular—Homer O'Connell & Co., Inc., 25 Broad Street, New York 4, N. Y.

Atlantic Coast Line Railroad—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is an analysis of **St. Regis Paper Company** and a leaflet of **Railroad News.**

Bird & Son, Inc.—Memorandum—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Black, Sivalls & Bryson, Inc.—New Analysis—Lentz, Newton & Co., Alamo National Building, San Antonio 5, Texas.

Consolidated Gas Utilities Corp. — Memorandum — Lee Higginson Corp., 231 South La Street, Chicago 4, Ill.

Curtis Companies, Inc.—Memorandum—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

Devoe & Raynolds Co., Inc.—Analysis of Outlook—Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

Allen B. DuMont Laboratories, Inc.—Study—J. Roy Prosser & Co., 52 William Street, New York 5, N. Y.

Glidden Co.—Memorandum—A. G. Becker & Co., 120 South La Salle Street, Chicago 3, Ill.

R. Hoe & Co., Inc.—Analysis—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

Imperial Oil—International Petroleum—Standard Oil of New Jersey — Alternative Exchange Plans—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada.

Leonard Refineries, Inc.—Circular—George Birkins Company, 40 Exchange Place, New York 5, N. Y.

Long Bell Lumber Company—New analysis—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

P. Lorillard Company—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Maine Central Railroad — Descriptive Analysis—A. G. Woglom & Co., Inc., 53 State Street, Boston 9, Mass.

Also available are descriptive analysis of **United States Finishing** and **Buffalo Bolt Co.**

Manufacturers Trust Co.—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

New England Public Service Co. plain preferreds—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

New York, New Haven & Hartford—Memorandum — Price, McNeal & Co., 165 Broadway, New York 6, N. Y.

Parker Appliance Company — circular — du Pont, Homsey Co., 31 Milk Street, Boston 9, Mass.

Philip Carey Manufacturing Co.—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Il.

Pickering Lumber Co.—Memorandum—Russ & Co., Alamo National Building, San Antonio 5, Texas.

Plomb Tool Company—Memorandum — Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Republic National Bank of Dallas — Memorandum — Dallas Rupe & Son, Kirby Building, Dallas 1, Texas.

Rulane Gas Co.—R. S. Dickson & Co., 30 Broad Street, New York 4, N. Y.

Silver Creek Precision Corporation — Analysis—Heimerdinger & Straus, 50 Broad Street, New York 4, N. Y.

Time, Inc. — Circular — White,

(Continued on page 39)

Half-Year Monetary and Credit Outlook

By J. BROOKE WILLIS

Associate Professor of Banking, Columbia University

Dr. Willis points out though there was a lull in bank credit expansion in first half of 1948, the remainder of year may see renewal of increased credit demand, but that the expansion may be hampered by Treasury using cash resources to nullify additions to bank reserves. Says conservative policy dictated increased rates on government short-term obligations to enable Reserve Banks to shift part of their holdings to commercial banks and other investors.

The postwar expansion in bank credit was temporarily arrested during the first half of 1948. Total loans and investments of the weekly reporting member banks decreased by $2,178 million, or by 3.4% and demand deposits adjusted declined by $2,265 million, or by 4.7%. These changes occurred mainly during the first quarter of the year when the heavy tax drain exercised continuous pressure on the reserve positions of member banks, causing them to liquidate government securities. In the second quarter, investments showed no pronounced change while loans gave evidence of renewed expansion.

J. Brooke Willis

The temporary interruption in the upward trend of bank credit provided the basis for disagreement between the Treasury and Board of Governors of the Federal Reserve System with regard to appropriate interest rate policy. It had been widely assumed that with the passing of the heavy tax inflow in March, the program of raising yields on short-term government securities, which was begun in the middle of 1947, would be resumed preparatory to the June 1 or July 1 refundings. However, the Treasury was reluctant to incur an increase in its borrowing rate on certificates of indebtedness and decided to resist further action of this character until some more "appropriate time." In the wake of this discord the Board, on June 11, increased by two percentage points the required reserves of New York and Chicago banks, an earlier increase of the same amount having been imposed on the 27th of February.[1]

Opponents of a rate increase pointed to the fact that commercial loans, until recently, were declining and support purchases of the Reserve System had diminished. On the other hand, the proponents of a rate increase believed that the recession in commercial loans was temporary and that anti-inflationary action should anticipate and not wait upon a renewed loan expansion. Opinions also differed regarding the effectiveness of higher interest rates in restraining both the demand for bank credit and the willingness of bankers to extend accommodation. In addition, the Treasury was loath to incur higher interest costs on the debt even though, in part, such expenditures would be recovered from the earnings of the Reserve banks and from general taxation.

It is impossible to say whether the monetary authorities will permit an increase in the rate on short-term government obligations before the end of the year. Whatever decision is reached will be based on two underlying considerations:[2]

(1) The increase occurring in the total demand for credit and whether this increase, in the opinion of the monetary authorities, is sufficiently great to necessitate restrictive action.

Recently commercial loans have shown evidence of resuming their upward trend.

(2) The resources at the command of the Treasury to offset increases in bank reserves which may result from: (a) further purchases of government obligations by the Reserve System in support of the present yield curve; (b) gold imports and other factors.

Recently the Reserve System has been obliged to purchase increasing amounts of government obligations to maintain the existing yield curve. The prospect for the next six months is that member bank reserves will increase further as institutional investors sell government obligations to the Reserve System in order to meet private credit demands in the form of mortgages, new issues of corporate securities and private loan placements. Sales of U. S. Government securities by non-bank investors may total $1,500 million in the last six months of 1948, according to the testimony of Chairman McCabe on July 29 before the Senate Banking and Currency Committee.

Gold imports in the next six months may add an additional $750 million to bank reserves (about the same amount as in the first six months of the year) although this factor will be offset to a considerable extent by the usual seasonal rise of money in circulation.

The primary consideration is whether the authorities will have adequate means by which to offset increases in bank reserves. During the last nine months the monetary authorities have consciously endeavored to offset increases in bank reserves arising from the Reserve System's support purchases of government securities by using the Treasury's current cash operating surplus to redeem maturing securities held by the Reserve banks.

Estimates covering the last six months of 1948 indicate that the Treasury may have sufficient cash resources to nullify probable additions to member bank reserves, but this is conjectural. The Treasury's net cash operating surplus may approach $1 billion. The special sales of "F" and "G" bonds between July 1 and July 15 produced about $1,200 million and the Treasury had an additional $1,800 million on deposit in the War Loan accounts on the 30th of June. These amounts total $4 billion. Of this sum nearly $1 billion may

(Continued on page 29)

1 It is entirely possible that a further and final increase of 2 percentage points may be made in reserve requirements of New York City and Chicago banks. However, this action would be abortive, serving merely to penalize the earning power of this class of banks by necessitating sales of securities to the Reserve System.

2 The Treasury decided on Aug. 9, after this article was written, to increase the rate on short-term government obligations from 1⅛% to 1¼%.

Joins Morton, Hall Co.

(Special to THE FINANCIAL CHRONICLE)

LEWISTON, MAINE—George L. Golder, Jr. has become affiliated with Morton, Hall & Rounds, Inc., 226 Main Street.

With A. E. Weltner & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. JOSEPH, MO.—Katie O. Wright is now with A. E. Weltner & Co., Inc., Corby Building.

Illinois Brevities

An underwriting group headed by A. G. Becker & Co., Inc., last Tuesday publicly offered 350,000 shares of Ashland Oil & Refining Co. $1.20 cumulative convertible preferred stock at $24 per share, viz: 250,000 shares for account of the Ashland company, the proceeds of which are to provide additional working funds to be available for its expansion and development; and 100,000 shares for the account of two individual stockholders. Earlier this month, Allied Oil Co., Inc., of Cleveland was merged into Ashland through an exchange of stock.

* * *

United Air Lines, Inc., Chicago, is offering its common stockholders of record Aug. 3 the privilege of subscribing on or before Aug. 17 for 184,809 additional shares of common stock (par $10) at $10.75 per share on the basis of one new share for each ten shares held. An aggregate of approximately 175,000 shares of unsubscribed stock will be offered to officers and employees. The offering is underwritten by Harriman, Ripley & Co., Inc., New York, and associates, including the following Illinois investment bankers: Glore, Forgan & Co., Harris, Hall & Co. (Inc.), Kebbon, McCormick & Co., Bacon, Whipple & Co., The Illinois Co., Farwell, Chapman & Co. and Julien Collins & Co. The net proceeds are to be added to working capital.

* * *

Halsey, Stuart & Co. Inc. on July 9 publicly offered $6,000,000 New Jersey Power & Light Co. first mortgage bonds, 3% series due 1978, at 101¾ and accrued interest. This firm had been awarded the bonds at competitive sale on its bid of 101.319. The net proceeds will be used for the purchase or construction of new facilities, and the betterment of existing facilities.

On July 14 a banking syndicate, headed by Halsey, Stuart & Co. Inc., and which included, among others, A. G. Becker & Co., Inc., H. M. Byllesby & Co., Inc., Bacon, Whipple & Co., Mullaney, Wells & Co., F. S. Yantis & Co., Inc., Dempsey & Co., Martin, Burns & Corbett, Inc., Alfred O'Gara & Co. and Patterson, Copeland & Kendall, Inc., publicly offered $55,000,000 New Jersey Bell Telephone Co. 40-year 3⅛% debentures due 1988 at 103⅛ and interest.

In addition, Halsey Stuart & Co. Inc. headed an underwriting syndicate which on July 22 publicly offered $11,000,000 New England Power Co. first mortgage bonds, series B, 3% due 1978 at 100.99 and interest. Among the participants was Mullaney, Wells & Co.

* * *

B. E. Henderson, President of Household Finance Corp., on July 16 announced that his company had sold $25,000,000 of 3% sinking fund debentures due 1964 to The Equitable Life Assurance Society of the United States, and New York Life Insurance Co. (one-half to each) at 100 plus accrued interest from July 1, 1948. The proceeds were used to prepay a like amount of short-term bank loans.

* * *

On July 22, A. G. Becker & Co., Inc. and Central Republic Co. (Inc.) participated in the public offering of 15,000 shares of 4¾% cumulative preferred stock of Ed. Schuster & Co., Inc. of Milwaukee, Wis., at par ($100 per share) and dividends. The net proceeds will be added to the general funds of the company and will be available for general corporate purposes pending specific allocation.

* * *

Paul V. Galvin, President of Motorola, Inc., radio and television manufacturing firm, on July 15 announced completion of a loan agreement in the amount of $2,000,000 with the Prudential Insurance Co. of America. The loan, at the rate of 3½% per annum, is for a term of 15 years, and provided additional working capital for expansion of sales volume.

* * *

Dempsey & Co., Chicago, and White & Co., St. Louis (Mo.), together with Alfred O'Gara & Co. and Straus & Blosser, also of Chicago, and L. B. Jackson & Co., Inc., of Bloomington, in July offered to the public 160,000 shares of 50-cent par value common stock of Steak 'n Shake, Inc., Bloomington, at $2.50 per share, the net proceeds going to selling stockholders.

* * *

The stockholders of Truax-Traer Coal Co. on July 29 approved a change in the authorized common stock from 1,000,000 shares of no par value to 2,000,000 shares, par $5 each. At April 30, 1948 there were 985,107 shares outstanding. The sale of the company's 100% stock interest in the Central Barge Co., for a cash consideration of $1,500,000, was also ratified.

* * *

A banking syndicate headed by F. S. Yantis & Co., Inc., and and H. M. Byllesby & Co. (Inc.) on July 28 publicly offered 100,000 shares of General Plywood Corp. 5% cumulative convertible preferred stock at par ($20 per share) and accrued dividends.

* * *

Danly Machine Specialities, Inc. placed privately through Dovenmuehle, Inc., $1,750,000 first mortgage 4½% sinking fund bonds, due July 1, 1958.

* * *

An underwriting group of 90 investment banking firms on Aug. 6 publicly offered 150,000 shares of 5% cumulative convertible preferred stock of Allen B. DuMont Laboratories, Inc., at par ($20 per share) and dividends. The following Illinois bankers participated: Straus & Blosser, First Securities Co. of Chicago, Dempsey & Co., W. C. Gibson & Co., Holley, Dayton & Gernon, and Mason, Moran & Co. The net proceeds are to be used to increase working capital, to defray in whole or in part the cost of additional facilities and for other general corporate purposes as required by DuMont's expanding business.

(Continued on page 42)

Illinois Bankers Protest Increased Reserves

Harry C. Hausman, Secretary of Illinois Bankers Association, releases letter sent Illinois Congressmen Stratton and McMillen giving reasons for opposition to higher bank reserve requirements.

In keeping with the declared policy of Illinois bankers objecting to more centralized Federal controls, Harry C. Hausman, Secretary of the Illinois Bankers Association, in an effort to forestall an apparent temporizing concession to the President's demand for "positive action" against inflation, directed the following letter air mail on August 2 to Messrs. Stratton and McMillen, members from Illinois of the House Banking and Currency Committee:

Harry C. Hausman

"This morning I wired you as follows: 'Please oppose proposal to increase reserve requirements 10%. Am writing you at length air mail.'

"Radio and newspapers are rather insistent that the Congress will pass legislation on the President's recommendation to increase the reserve requirements of banks, including non-member banks of the Federal Reserve System, by 10% and to provide for some controls over bank credit, including instalment loans.

"In behalf of the banks in Illinois, we want to explain to you our opposition particularly to the proposal to increase the reserves. The general public is not any too well informed about about this and it has been made to appear to them that the banks are in some way or other responsible for the inflationary effects that have been demonstrated during the past decade and will be responsible for any acceleration of the inflationary spiral in the future unless bank credits are curtailed and legal reserves increased. The general public is, too, confused as to just what this all means. It does not distinguish between legal reserves and the reserves shown on banks' statements of condition. If I may, I will put our objections in the form of questions which I would greatly appreciate your putting to any of those 'experts' or 'authorities' who come before your committee supporting this proposal.

"Hog prices are now around $31 per hundredweight. In what way are the legal reserves of banks responsible for this price?

"Prime steers are well above $31 as are all other live animals, proportionately, which are delivered to our stock yards. While these food animals are going up, each week grain futures, including all cereals, are going down. What effect, if any, has legal bank reserves either on the increases in animals or the decreases in grains? After all, what we are mostly interested in is how much it costs you and me to buy food and other necessities for our living.

"Recently several of the auto-

(Continued on page 39)

Banking Syndicate Makes Public Offering of $134,000,000 Pennsylvania Turnpike Bonds

Proceeds of New Issue Will Be Used for Refunding and Construction of Philadelphia extension

Marking the largest revenue bond financing operation ever undertaken, a nationwide investment banking group jointly headed by Drexel & Co.; B. J. Van Ingen & Co. Inc.; Blyth & Co., Inc., and The First Boston Corporation, is offering to the public two issues totaling $134,000,000 Commonwealth of Pennsylvania Turnpike Revenue Refunding and Extension bonds.

The offering comprises $47,000,000 of 2¼% serial bonds due June 1, 1952 to 1968, and $87,000,000 of 3¼% term bonds, due 1988. The serial bonds are priced to yield 1.70% for the 1952 maturity to a dollar price of 97¼ for the 1968 maturity. The offering price of the term bonds is 101 and accrued interest.

The bonds are payable from the revenue of the Turnpike System.

Proceeds of the $47,000,000 of serial bonds will be used to redeem $45,086,000 Turnpike revenue refunding bonds callable 1951, while the funds derived from the sale of the $87,000,000 of term bonds will be used principally to finance the construction of the projected eastern extension of the Turnpike System to the outlying area of Philadelphia. The present Turnpike now extends from Middlesex, Pa., near Harrisburg to Irwin, Pa., 15 miles east of Pittsburgh.

According to Governor James H. Duff of Pennsylvania the State Highway Department will immediately plan for construction of a super-highway, financed by the Commonwealth, from the eastern end of the Philadelphia extension to provide direct access road in and out of downtown Philadelphia.

The existing Turnpike, in operation since 1940, is for much of its 160-mile length a four lane divided highway of the most modern construction. Various features of its construction, including tunnels, bridges and structures and the absence of sharp curves and steep grades made the Turnpike an all-weather highway, which motor vehicles may travel with a maximum degree of safety at higher speed at reduced fuel, tire and maintenance costs. It is calculated that drivers are able to save from two to six hours per trip on the Turnpike.

It is the ultimate intention of the Pennsylvania Turnpike Commission to develop the Turnpike System as a single operating unit extending from the eastern to the western boundaries of Pennsylvania. Construction of the Philadelphia Extension is scheduled to start this year with completion expected by the end of 1950. The Philadelphia Extension is a logical step, according to the prospectus, in view of the inadequacy of existing highways to handle the heavy Philadelphia-Harrisburg traffic.

For vehicles using the existing Turnpike tolls range from $1 and $1.50 for motorcycles and passenger cars to $10 for full trailer heavy trucks. After completion of the Philadelphia Extension the charges will range from $1.60 and $2.50 for motorcycles and passenger cars to $16 for heavy trailer trucks.

Operating income of the Turnpike for the fiscal year ended May 31, 1948, was $5,182,179 and after maintenance and operating expenses net operating income amounted to $3,996,241. In the preceding fiscal year operating income was $4,120,020 and net operating income $3,120,960. Vehicles using the Turnpike in the latest fiscal year numbered 3,143,450.

The Securities Market in Mexico

By LIC. PRAXEDES REINA HERMOSILLO*
Asst. General Manager, Nacional Financiera, Mexico

Executive of Mexican financing agency, in surveying securities markets in Mexico, stresses efforts of Mexican Government to promote development of a capital market. Says Mexico realizes benefits it derives from use of foreign capital and offers to foreign investors that adjust themselves to national laws a just treatment and legal protection. Outlines functions and operations of Nacional Financiera, a Mexican agency that purchases and distributes industrial securities, and gives description of Mexico Stock Exchange and Mexico's National Securities Commission.

The policy of the Mexican Government in the last years, towards speeding the national economic development through industrialization, has made clear the necessity of developing the financial markets and especially the capital markets of the country.

Reina Hermosillo

Prior to the Second World War, the Mexican Government had already undertaken a policy of capital formation whose main result has been the constant increase of the national and per capita income and the increasingly productive canalization of savings.

Notwithstanding the combined use of the financial resources provided by monetary expansion and genuine savings, Mexico has needed, as most countries that go through such a stage in their development, to seek complementary foreign financial assistance, trying to use the credit and investment possibilities of nations with huge savings, to prevent the disturbances and overcome the limitations resulting from financing exclusively on domestic resources.

Since 1925, when the Central Bank—Banco de Mexico, S. A.—was established, and particularly since 1936, year in which it started to operate as a money and credit regulating institution, the Mexican financial markets have shown a continuous growth.

The Central Bank has been a decisive factor in the structurization of a money market that has played an important role in stimulating domestic and international commercial transactions and operations connected with the public and private securities market.

With the Banco de Mexico, S.A., the private credit institutions have accomplished other tasks such as spreading credit in the country and introducing practices unknown or unemployed before; besides, they have financed many activities that have strengthened the national economy.

The credit system formed by the private institutions, that is, those in which the government has no participation, has grown in an extraordinary manner, as can be seen in the following figures:

In 1938 the number of credit institutions that we are referring to totaled 116—61 head offices and 55 branches; in 1940, the number of these banking institutions was 128; in 1942, 457, and at the end of 1944, two years later, there were 638 and 727 in December, 1947, distributed in 383 head offices and 344 branches.

Referring to the resources of the private banking system, the following figures are plainly illustrative:

In 1938 the total resources were estimated a little above 600 million pesos, while in December 1947 they totaled about four thousand million pesos. As can be logically supposed the largest expansion took place since 1940 due to the inflationary impact of the Second World War on the Mexican economy.

The Securities Market

We will present a sketch of the securities market in Mexico, indicating its significance and principal characteristics, the securities that circulate in it, the terms under which it is regulated and the measures taken to develop it.

Significance—The Mexican securities market does not, of course, have the relative importance that it presents in an economy like the one of the United States. Mexico is a country whose population continues to dedicate itself mostly to agricultural activities; it is calculated that almost 65% of the economically active population is employed in agricultural activities. Regarding this point, it is interesting to note that agriculture contributes less than 20% of the national income, while industry, that employs only about one-sixth of the total economically active population, supplies more than 40% of the national income.

Besides the structural characteristics of the Mexican economy that limit the level of productivity and therefore the income and savings, there are many factors that condition the development of the securities market. Among the most important the following can be mentioned:

(1) The financing methods of industry were not, for a time, the most adequate to develop the securities market.

(2) Many industrial and commercial enterprises have no access to the securities market because they are not organized as stock companies.

(3) The holders of savings have shown a certain preference towards the purchase and development of real estate and on other occasions towards activities proper to the money market, that are usually followed by high yields.

(4) Finally, it has been in the last few years when most advances have been obtained in the organization of the financial system.

In spite of the obstacles mentioned before, common to the countries that are beginning their industrialization, the securities market in Mexico, as will be seen further on, has acquired an increasing importance in the national economy.

Institutional Aspects—Although it is difficult to distinctly point out the entities and organisms that demand or supply funds in the securities market we will try to point out the most important.

On the side of the demand for capital the following have an outstanding position: (1) The government and its political sub-divisions; (2) industrial corporations; (3) several credit institutions that operate in the market, for example, the "Sociedades Financieras" (Investment Companies) and Sociedades de Credito Hipotecario (Mortgage Banks).

On the side of the supply of capital the following investors must be included: (1) Commercial banks; (2) savings banks; (3) capitalization and trust companies; (4) insurance and surety companies; (5) non-commercial organizations, charity foundations and other institutional investors, and (6) individual investors.

Further on we will estimate the relative importance of each of the above mentioned groups in the securities market.

Securities Outstanding in the Market — The government, the banks and industry, exerting—as we pointed out before—the principal demand for funds in the market are, at the same time, the ones that have the largest amount of securities outstanding.

The Government—An important part of its needs are financed through the issuing of securities. We are not referring to the Treasury certificates negotiated in the money market but to the long-term securities that form the public securities market.

Although the state's revenue has grown in the last years—from 777.4 millions of pesos to 2,632.5 millions of pesos from 1939 to 1947—the government has utilized the issuing of securities to finance many public works that, being essential to the economic progress of the country, have not been attended by private investors because of their high cost, their low yields or simply for being a function of the state.

The public debt comprises securities issued or guaranteed by the government and is divided in two large groups: the internal public debt and the external public debt.

The internal public debt is the most important. To Dec. 31, 1947, it totaled $1,220,269,000.00 pesos; $1,162,050,000.00 corresponding to the Federal Government and $48,-219,000.00 to the local government and to the Federal District Department.

On the same date the funded internal public debt was constituted principally by highway bonds, public works and electric industry bonds, that amounted to nearly 90% of the debt; the remaining 10% was distributed in irrigation bonds, railroad bonds, "puertos libras" (free ports) internal debt and other less important items.

The internal public debt is divided in funded and floating debt, the first one being of greater importance. The floating internal public debt amounted to December, 1947, to 195,785,000 pesos.

The external debt is also divided in funded and floating debt. The most important international arrangements made in relation to this debt are those of 1922—De la Huerta-Lamont—and those of 1942 and 1946. To Dec. 31, 1947, the external public debt reached 1,029,251,000.00 pesos.

Besides the above mentioned debts the government has guaranteed some credits granted by the Export-Import Bank of Washington whose standing to June 30, 1948, was as follows:

EXPORT IMPORT BANK CREDITS
(Thousands of dollars)

	Credits Granted	Credits Disposed of by the Borrower
Highways	36,000	36,000
Altos Hornos de Mexico (steel)	8,000	7,500
Petroleos Mexicanos (oil industry)	10,000	9,950
Com. Fed. de Electricidad	20,000	9,000
Railroads	26,000	23,290
Nueva Cia. Electrica de Chapala, S. A.	3,500	
Sugar Mills	5,000	
Canning	1,000	
Planta Sulfato de Amonio	6,000	
Total	115,500	90,740

Summing up, excluding the indirect obligations to the Ex.-Im. Bank, it may be said that to Dec. 31, 1947, the National debt amounted to approximately 2,775,-000,000 pesos.

Government's Policy Toward Its Debt and Foreign Investments

At this stage of our review of the securities market it is convenient to point out the principles ruling the government's policy towards its debt. The Mexican Government has considered fundamental to scrupulously comply with its obligations, which have been contracted according to its paying capacity. The credits obtained inside and outside the country have been dedicated to productive enterprises and to the construction of works whose yields shall be the creditors' best guaranty.

Concerning the policy followed by the government toward foreign investments, the convenience of relying on other countries' savings as complementary support to the national development has been admitted. This not only refers to the loans made by international institutions but also to those made by private investors.

On this subject, the Secretary of the Treasury, Mr. Ramon Beteta, recently declared that "private investments must be considered as the normal means to

(Continued on page 22)

*A paper by Senor Praxedes Reina Hermosillo presented at the 31st Annual Meeting of the National Association of Securities Administrators, Portland, Ore., July 21, 1948.

Phil R. Manning Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Phil R. Manning is engaging in a securities business from offices at 756 South Broadway.

With F. Knowlton & Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CAL.—Theron H. Coffelt has become affiliated with Frank Knowlton & Co., Bank of America Bldg.

Securities Salesman's Corner

By JOHN DUTTON

To those who came into the investment securities business after 1930 it may seem to them that we have had a few fairly active years out of many that have been mighty drab and drear. But to those of us who are old enough to remember the days before the New Deal wiped out the American investor's incentive to assume normal risks, the kind of business we have known in the security markets of this country since 1933 has been pathetic in its impotence.

We are not making any brief for unlicensed and unbridled speculation, nor manipulative practices that have been rightfully curbed. We are also not approving misrepresentation in the issuance of securities. All these things have been condemned and treated in the manner they so well deserve by every responsible segment of the financial industry of this country. But in the efforts to reform, great powers were handed over to bureaucracy which has taken upon itself the attitude that it is beyond criticism; and by its actions has placed such a background of fear behind all phases of legitimate investment activity that courageous, normal progress is stifled.

There was also a time when the American people found it desirable to GAMBLE. Now you may not like the word Gamble. You may prefer, "Take a risk," or, "venture your capital," or "speculate," but whatever you wish to call it, the urge to "lay your money on the line and get a good run for it," was the very thing that created the high standard of living we enjoy today in this country. Since the Securities Exchange Commission arrived with its sacrosanct purposes of protecting the investor there has been a rush to the storm cellar and we have been cowering there ever since. Everyone has been looking for something that doesn't exist in this world, that something we call security. But our forefathers did not look for it when they bought their first few shares of A.T.&T., or General Motors, when those companies were struggling promotions. In the twenties the volume of trading we know today on our stock exchanges would have been considered a joke. So much for what the SEC and New Deal taxes have done for the investment business.

But if a few thousand people who are in the investment business were all that had been hurt during the past 16 years this would be of little consequence except to those who are in that business. But this country now has a serious deficiency of capital equipment because the financing of new industry has been crippled ever since 1933. When the people stopped gambling on the future this country's forward progress died. We have been making up for a lack of investor confidence **by deficit financing on the part of the Federal Government.** This cannot go on forever. The present price inflation is a direct result of too much government fiat money, and too LITTLE OF THE SAVINGS OF THE PEOPLE GOING BACK INTO INDUSTRY. The banks, insurance companies, and the U. S. Treasury (through bond sales) have piled up billions upon billions of these fiat dollars, BUT THEY ARE NOT GOING INTO THE TOOLS AND MACHINERY WE NEED AS THE NATION'S POPULATION CONTINUES TO EXPAND.

We need about $5,000,000,000 per year in common stock financing for the next ten years in this country if we are going to avert that great bust-up the New Dealers and the Communists are always telling us is around the corner. A change in the tax laws so as to make risk taking desirable again, plus a complete revision of the Securities Acts so that the Commission can no longer change trade practice and custom in the securities business; nor usurp the powers of Congress and make law such as it has been doing uninterruptedly for 15 years, and a complete definition of its powers and the scope and limitations of its activities are imperative legislative acts before this nation can get back on the track once again toward progress and real prosperity.

If we have a new Administration this fall, and if it means what it says when it talks about freeing the people from totalitarian New Deal government, then tax revision and a rewriting of the Securities Acts will be one of the first orders of business.

Duncan Morgan With ATF

The appointment of Duncan J. Morgan, well-known in the manufacturing, management and investment fields, as director of human relations for ATF Incorporated, Elizabeth, N. J., has been announced by Thomas Roy Jones, President. He succeeds B. F. McClancy, who has become general manager of the Associated Industries, Cleveland.

Mr. Morgan goes to ATF from the post of Administrative Assistant to the President of Illinois Tool Works, Chicago. Previously he had been manager of staff administration for Booz, Allen & Hamilton, Chicago management engineers; manager of the automobile division and manager of market analysis for Crosley Corporation, Cincinnati; manager of market research for American Gas Service Co., Pittsburgh; associate in the private investment management firm of Curry & Morgan, Pittsburgh; and with Cromwell & Cabot, Inc., Boston investment counsel, and Estabrook & Co., Boston investment bankers.

With First Securities

(Special to THE FINANCIAL CHRONICLE)

DURHAM, N. C.—Anthony R. Fretz has been added to the staff of First Securities Corp., 111 Corcoran Street.

With Bond & Goodwin, Inc.

BOSTON, MASS. — Mrs. Margaret P. Cooke, of Watch Hill, R. I., is connected with Bond & Goodwin, Inc., 30 Federal Street.

Treasury Increases Short-Term Rates

Secretary Snyder announces proposed increase on short-term government certificates from $1\frac{1}{8}\%$ to $1\frac{1}{4}\%$ as anti-inflationary move. Long-term rates remain unchanged.

Secretary of the Treasury, John W. Snyder, announced on Aug. 9, that the interest rate on short-term government securities, which since Jan. 1 has been $1\frac{1}{8}\%$, would be increased to $1\frac{1}{4}\%$ as an anti-inflationary measure. The increase would be applied as follows: Treasury certificates of indebtedness and notes maturing Oct. 1, will be refunded into a $1\frac{1}{4}\%$ one-year certificate of indebtedness, and Treasury notes maturing on Sept. 15, will be refunded into $1\frac{3}{8}\%$ Treasury notes, maturing April 1, 1950. The interest rate on Treasury savings notes will be likewise adjusted, details to be announced later. Treasury savings notes with the higher interest rates are expected to be available Sept. 1. The existing $2\frac{1}{2}\%$ rate on government long-term issues is presumably to remain unchanged.

John W. Snyder

As a result of the higher rate set for short-term government obligations, it is expected that banks will make a proportionate increase in the interest charge on business loans.

With Hugh Niven

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Herbert MacKenzie is now with Hugh Niven, 3510 North Pennsylvania Street. He was formerly with Maxson Securities Co.

COMING EVENTS

In Investment Field

Aug. 27, 1948 (Denver, Colo.)
Bond Club of Denver-Rocky Mt. Group of IBA joint Annual Party at Park Hill Country Club

Sept. 10, 1948 (New York City)
Security Traders Association of New York Summer Outing at Travers Island.

Nov. 13, 1948 (Chicago, Ill.)
Bond Traders Club of Chicago Luncheon for members of NSTA passing through Chicago on way to the Convention.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Dec. 5-10, 1948 (Hollywood, Fla.)
Investment Bankers Association 1948 convention at the Hollywood Beach Hotel.

Warns Federal Reserve Against Imposition of Restrictive Consumer Credit Controls

A. O. Dietz, President of C. I. T. Financial Corporation, holds drastic restrictions will have adverse effect on auto and durable goods industries.

Commenting on the resolution just passed by Congress providing for consumer instalment credit controls, A. O. Dietz, President of C. I. T. Financial Corporation, stated on Aug. 10: "In view of the broad authority which Congress proposes to delegate to the Federal Reserve Board, the effect of the legislation on the economy will in the last analysis depend on the action which the board will take in fixing instalment selling terms. It is perfectly clear in this connection that the resolution authorizing the Federal Reserve Board to control instalment credit is not intended by Congress as a mandate to reimpose the same terms as those contained in Regulation W. That regulation was a wartime measure adopted primarily for the purpose of curtailing production for civilian use, of automobiles and other durable goods. To reimpose terms of the same severity today would, in my opinion, be entirely unnecessary and would have a result just the opposite from that which this legislation is intended to achieve. By this, I mean that if the requirements as to down payments are to go beyond those specified in Regulation W or, particularly, if the number of months within which instalment payments may be made is limited as drastically as under the wartime regulation, the amount of cash needed to buy automobiles and other necessities in the durable goods field would result in a great increase in sales by holders of government bonds and in the substantial depletion of savings. This also would mean that many potential purchasers of automobiles would be required to forego their purchases because of burdensome terms which, in turn, would result in the diversion of purchasing power into the soft goods markets and a consequent increase in current serious inflationary pressures in that field.

A. O. Dietz

"Instalment credit terms today are no longer than they were before the war, particularly for automobiles which constitute the most important single item in the list of commodities generally sold on time. From all that we can observe, there are no indications that these terms are getting out of line. It is also true, as shown by the statistics of the Federal Reserve Board, that the percentage of instalment sales to total sales is substantially below the prewar level and, further, that the ratio of instalment debt to consumer disposable income, notably that part of it which arises from the time sales of automobiles, is well within the prewar figure.

"The foregoing considerations merit the careful study of the Federal Reserve Board since disproportionate limitations upon instalment selling terms may have a drastic deflationary effect. The Federal Reserve Board has a great responsibility in this matter and an opportunity to do a constructive service to the economy in formulating regulations which will help to forestall an inflationary spiral and at the same time make it possible for the automotive and other durable goods industries to continue high-level production and employment. In my opinion, the Federal Reserve Board is well aware of the far-reaching effect upon the economy of too restrictive controls and therefore I believe that their approach to this problem will be a sound one."

Canada Completes Sale Of $150,000,000 Bonds

Negotiations started in July by Canada to sell $150,000,000 long-term 3% bonds to three United States life insurance companies will be completed today, Aug. 12. Proceeds from the sale will be used mainly to repay drawings of $140,000,000 made so far by the Canadian government on the $300,000,000 credit extended by the Export-Import Bank. The remainder will serve to increase Canada's exchange reserves.

Last July when it was announced that negotiations for the loan were under way ("Chronicle" July 15 page 234) Finance Minister Douglas Abbott stated:

"The bonds, which have a term of fifteen years, have been sold at par. They will be dated Aug. 1, 1948, and will mature on Aug. 1, 1963. The bonds were sold to the Prudential Insurance Co. of America, the Equitable Life Assurance Society of the United States, and Metropolitan Life Insurance Co. The negotiations were handled through Morgan Stanley & Co., New York City."

Mr. Abbott referred to the statement he made last Fall at the time that the short-term credit from the Export-Import Bank was arranged.

"At that time," he said, "I explained that this credit represents a departure from our normal practice of securing necessary United States dollar financing by the sale of our obligations to banks or other private investors in the United States and that in the near future I proposed to investigate the practicability of replacing this temporary financing with a longer-term loan arranged in the normal way through private channels.

"I am happy to be able to announce the successful conclusion of negotiations to this end. The purchase on such favorable terms of this substantial issue of Canadian bonds by these three large insurance companies in the United States is a tribute to the high credit standing of Canada in the United States market."

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — George H. Schlatter has been added to the staff of Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

With C. E. Abbett & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Mrs. Edith Hirschfield has joined the staff of C. E. Abbett & Company, 3277 Wilshire Boulevard. She was previously with Carter H. Corbrey & Co.

With Bateman Eichler

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Bernard J. Johnson has been added to the staff of Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Leo Schoenbrun.

Our Role in World Affairs

By JAMES P. WARBURG*

Mr. Warburg, in maintaining nation is planless and bungling in its foreign relations, asserts we are caught between two conflicting foreign policies, one which arises from theory that world crisis is due to widespread economic distress and maladjustment and the other that it is due solely to unwillingness of Soviet Union to cooperate in world peace because of selfish aims. Proposes withdrawal of all troops from Europe and elimination of Europe as bone of contention. Scores United Nations as ineffective and advocates building it into world government.

You have asked me to discuss the role of the United States in world affairs. My effort to meet this challenging assignment will be divided into two parts: first, an attempt to picture the role we are playing at present; and second, a brief discussion of the part we could play if we realized our potential.

I. Our Present Role

Seen through the eyes of the non-communist world, the present role of the United States in world affairs is that of a well-meaning but dangerously clumsy and wholly unpredictable giant.

To put this statement in proper context, let me say that the same non-communist world sees the Soviet Union as a ruthlessly purposeful monolithic power, whose intentions are variously regarded as enigmatic or definitely evil. However, the role of the Soviet Union in world affairs lies outside of the scope of my assignment, except insofar as it is necessary to remember two things: that Soviet behavior affects the behavior of the United States; and that Soviet propaganda exaggerates our failings and arouses or magnifies doubt and distrust of our intentions. (The same two factors operate to some extent in reverse.)

James P. Warburg

In spite of Soviet propaganda, few people in the non-communistic world today question the good intentions of the American people, but a growing number question the intentions of our government and of the power groups which are, rightly or wrongly, thought to exercise their influence upon its policies. Strange as it may seem to us, a European is quite likely to draw a distinction between the American people and its government, rather like the distinction which are in the habit of making between the Kremlin and the Russian people. The distinction may or may not be valid, but it is drawn just the same.

Similarly, few people of the non-communist world doubt the vast resources which are at the disposal of the American people to carry out its good intentions. Yet an increasing number question whether, in the end, these resources will be so employed or diverted to other purposes.

The most puzzling thing about us in the eyes of our friends appears to be that we seem planless in spite of our power, frightened in spite of our relative security and bungling in spite of our recognized efficiency.

Even if there were no justification for this impression, it would still be wise for us to try to find out why it exists, because the fact that we are so regarded—whether justly or unjustly—profoundly affects our whole future and that of the entire world.

Let us try, then, to examine as objectively as we can whether there is any justification for the belief that, in spite of our great power, we have no clear plan of action; that, in spite of our relative security, we are unreasonably motivated by fear; and that, in spite of our pragmatic efficiency as a people, we seem to lack skill and know-how in our behavior as a nation among other nations. Let us, in other words, try to make up our minds whether the job in hand is one of substance or public relations—whether it is one of remedying actual shortcomings or merely one of correcting an erroneous impression.

There is, among some Americans, a growing tendency toward self-righteousness—a tendency to assume that any self-criticism is a defense of the Soviet Union or of communism. As we proceed with this self-examination, I must ask you to bear in mind that our purpose is to find facts rather than to assess responsibility or to make comparisons. Specifically, we are not inquiring into how the blame for the present unhappy state of world affairs should be apportioned as between ourselves and Russia. We are concerned here solely with finding out, if we can, what our present role is, how it is regarded and what we can do to make our contribution more effective.

1. Are We Without a Plan?

First, then, is it true that we are planless in spite of our power?

Certainly we were not planless so long as the war lasted. No one knows this better than the man who is now President of this great University. Until victory was achieved we had an aim, a series of objectives leading to the achievement of that aim, and a planned procedure leading to the attainment of each objective. The aim was the unconditional surrender of the Axis Powers. The objectives were the step-by-step liberation of the conquered territories and the ultimate invasion of Italy, Germany and Japan. To accomplish these objectives almost all other considerations were put aside. Until our single aim of victory was achieved, we had and consistently pursued a definite plan.

Whether or not our plan of action during the war was a wise plan is another matter. From the military point of view it would be hard to find fault with it. If, however, one accepts the Clausewitz axiom that "war is the extention of policy by other means"—that a war must be fought not merely to deny victory to the enemy but to gain a positive end—then our plan of action during the war can be criticized as being a plan shaped too exclusively by military expediency. The consequences of the pursuit of military expediency are evident today in Europe, in Asia and in practically every part of the world.

Our war plan was a plan to prevent world conquest by the Axis Powers and to subdue them by the quickest and cheapest means. In carrying out this plan we achieved victory, but no peace. Actually, **we bought quick victory at the expense of peace.**

For each military step along the road to victory we paid a political price. We paid for North Africa with Darlan and the survival of fascism in Spain. We paid for Italy in similar coin. We paid for Russian help in the war against Japan by agreeing to an old-fashioned victor's peace instead of the just peace pledged in the Atlantic Charter. We agreed to annexation of territory and the division of the world into spheres of influence. **To get the Red Army moving against Japan in Manchuria,** we paid the price of letting it conquer Berlin and liberate Czechoslovakia.

No one can say that the genius of great leadership in war might not have been transformed into equally great leadership toward peace—in spite of the price paid for victory—had that leadership and the wartime spirit of the American people continued. But the sad fact of the matter is that with the death of Franklin D. Roosevelt the spark of genius which might have wrested peace out of the shambles of victory, sputtered out; and—once victory was achieved—the spirit of the American people changed.

In spite of all the compromises of expediency, people throughout the world somehow still had faith in the ultimate purposes of the United States—even after the death of President Roosevelt—**until the events of August and September, 1945.** But their faith was shaken by the Potsdam Agreement, by the bomb that fell on Hiroshima and by the summary cutting off of Lend-Lease. These events, plus the helter-skelter demobiliation of our armed forces and the irresponsible termination of rationing and price controls, presented the world with a new picture of the United States. **A faithful and effective wartime ally had suddenly turned into a nation disinterested in the world, concerned primarily with its own comforts and possessed of a secret weapon which revolutionized all previous concepts of warfare and security.**

A Wendell Willkie might have resisted the turning tide of public opinion, at least enough to preserve the faith of the world in the United States—and, with it the opportunity to recapture the spirit, if not the letter, of the great principles laid down in the Atlantic Charter—the principles of a just and honorable peace, which had gone overboard at Teheran and Yalta. Given the preservation of that faith in our purposes, which President Roosevelt had inspired, we might have been able to work out the plan for peace which was unhappily not a part of his legacy. But the men who succeeded to the unfinished task were unequal to the challenge. They were men of good will, but they lacked vision. They were sincere executors of the contemporary desires of the American people, but they lacked the wisdom, the conviction and the courage to see that the contemporary mood of the people was dangerously irresponsible, and that the task of leadership was to change rather than cater to it.

Ever since the autumn of 1945 we have been drifting. We have lost the inspiration of a high purpose. We have had no clearly seen goal, no planned steppingstones along the road to an ultimate destination, and no consistently calculated procedure. Faced with a world weakened and disorganized by war, a world order compromised by wartime concessions to Soviet ambition, and a Soviet regime fully conscious of its purposes and ruthlessly determined to accomplish them, we have vacillated between accepting a divided world and pursuing a steadfast course toward healing the division. We have had plans, but no plan. We have had ideas, but no vision.

At present, we are caught between two conflicting foreign policies. We are impaled on the horns of a dilemma created by two contradictory theories of what the world crisis is about.

One theory—put forward by Secretary Marshall—is that the world crisis arises primarily from the widespread distress caused by economic maladjustment and dislocation. This theory recognized that we have emerged from the war in possession of the sole surplus production out of which the rest of the world can be helped to get back upon its own feet. It recognizes that, in our own self-interest, we must aid the world to regain its health. It sees "hunger, poverty, desperation and chaos" as the causes of communism and as the causes of the present threat to world peace. This theory has produced the European Recovery Program.

The other theory—put forward by President Truman and his bipartisan advisors—is that the world crisis arises solely from the unwillingness of the Soviet Union to cooperate in the making of a just peace and from the Soviet Union's ruthless pursuit of its own selfish ends. This theory has produced the so-called Truman Doctrine—a purely negative policy with the sole aim of stopping Soviet or communist expansion. The original version of the Truman Doctrine rested upon the belief that we could contain Soviet expansion by arming and otherwise financially assisting any nations, or groups within nations, hostile to Russia or to communist ideas. The later version, announced on March 17 of this year envisages the use of our own armed force, if dollars and bluff fail to accomplish the objective.

At the present time, we are betting about $6,000,000,000 a year on the constructive approach to peace embodied in the first theory, and almost three times that amount upon the negative approach embodied in the second. Stated in other terms, we are spending about 15 cents out of each taxpayer's dollar on an effort to build the peace, and then betting against our own effort by taking out war-risk insurance to the tune of something like 45 cents out of each taxpayer's dollar.

This in itself is fairly conclusive proof that we are planless in spite of our power. But that is not all.

We are also planless in dealing with the various individual problems which combine into the major problem of the peace settlement. For example:

We have no plan for Germany, which is the central problem of Europe. For three years we have been vacillating between the desire to destroy Germany's industrial capacity in order to eliminate its war potential, and the desire to build up German industrial capacity in order to promote European recovery. For the past 12 months, we have not known whether we were more afraid of a unified Germany in which Russia would have a voice, or a divided Germany in which Russia would completely control one-half and we the other.

We have no plan for Palestine, which is the central problem of the Middle East. We are for partition at one moment and against it the next. We favor trusteeship today and oppose it tomorrow. Our zig-zag course in the Middle East is dictated by a strange mixture of outworn strategic concepts, commercial interests,

(Continued on page 34)

*An address by Mr. Warburg before the faculty and students of Columbia University, New York City, July 20, 1948.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

In the July 29 issue of the "Chronicle" earnings of 25 leading fire insurance companies in 1947 were compared with their five-year average earnings for the period 1942-1946. This week the comparison is extended to include average earnings of the prewar and previous five-year period 1937-1941.

Two tables are presented. Table I shows net underwriting results, net investment income, federal income taxes and total net operating profits; Table II shows final net operating profits alone, for the two five-year periods and for 1947, also current dividend rates.

TABLE I

	5-Yr. Averages 1937-1941 Incl. Net Und.	Net Inv. Inc.	Fed. Taxes	Tot. Net Oper.	5-Yr. Averages 1942-1946 Incl. Net Und.	Net Inv. Inc.	Fed. Taxes	Tot. Net Oper.
*Aetna Insurance	$1.13	$2.51	---	$3.64	$1.20	$2.88	$0.47	$3.61
Agricultural Insur.	2.25	4.12	---	6.37	0.34	4.80	0.78	4.36
*American Equitable	—0.06	1.41	---	1.35	—1.63	1.76	---	0.13
[1]Boston Insurance	1.38	3.16	---	4.54	—0.01	3.33	0.19	3.13
Continental Insur.	1.47	2.25	---	3.72	1.80	2.74	0.98	3.56
Fidelity-Phenix	1.67	2.44	---	4.11	1.86	3.12	0.99	3.99
[2]Fire Association	0.56	3.44	---	4.00	—0.48	3.65	0.49	2.68
[3]Fireman's Fund	2.82	3.27	$0.26	5.83	4.21	4.67	2.21	6.67
†Franklin Fire	0.29	1.55	---	1.84	—0.37	1.43	0.20	0.86
*Glens Falls	2.00	1.94	0.28	3.66	2.61	2.35	1.12	3.84
Great American	0.78	1.56	---	2.34	0.69	1.82	0.42	2.09
Hanover Fire	0.02	1.44	---	1.46	—0.02	1.71	0.24	1.45
Hartford Fire	5.69	3.28	0.44	8.53	6.70	4.30	3.17	7.83
Home Insurance	0.58	1.66	---	2.24	0.63	1.62	0.59	1.66
*Ins. Co. of No. Amer.	2.37	3.73	---	6.10	3.54	4.77	1.73	6.58
National Fire	0.89	3.56	---	4.45	—1.23	3.22	0.08	1.91
[4]National Union	1.30	2.39	---	3.69	0.41	2.86	0.28	2.99
New Hampshire	0.48	2.15	---	2.63	0.46	2.40	0.16	1.78
North River	0.49	1.11	---	1.60	0.27	1.17	0.24	1.20
Phoenix Insurance	1.99	3.52	---	5.51	0.70	3.96	0.54	4.12
*Prov. Washington	1.28	1.84	---	3.12	0.97	1.97	0.33	2.61
[5]St. Paul Fire & Mar.	2.02	2.43	---	4.45	3.40	3.22	1.31	5.31
*Security Insurance	0.84	2.10	---	2.94	—0.83	2.26	0.15	1.28
[6]Springfield F. & M.	1.43	2.36	---	3.79	0.28	2.55	0.15	2.68
U. S. Fire	1.64	2.46	---	4.10	0.96	2.66	0.48	3.14

It will be observed that strict comparison of underwriting profits and investment income is not possible because in the 1937-1941 period federal taxes were not segregated (except in three cases). However, an approximate comparison of the components can be made. Other difficulties include capital changes in companies marked with (*), and for which no true adjustment is possible. Adjustments have been made, however, for stock split-ups, stock dividends, etc., as indicated by footnotes. In chronological order capital changes were as follows:

1942—Fireman's Fund, changed from 300,000 ($25) shares to 505,000 ($10) shares.
1943—Security, from 200,000 to 250,000 shares.
1944—American Equitable, from 200,000 to 300,000 shares.
1945—Insurance Company of North America, from 1,200,000 to 1,500,000 shares.
1947—Aetna, from 750,000 to 1,000,000 shares.
1947—Fireman's Fund, from 508,000 to 528,000 shares.
1947—National Union, 4 for 1 split, and increased from 220,000 to 400,000 shares.
1947—Glens Falls, from 500,000 to 650,000 shares.
1947—Providence Washington, from 300,000 to 400,000 shares.
1947—Springfield Fire & Marine, 2½ for 1 split and increased from 500,000 to 700,000 shares.

In the majority of cases the capital increases occurred in 1947, thus the per share figures in the two five-year periods can be compared directly, except with Security, American Equitable and Insurance Co. of North America, in which instances the comparisons suffer some distortion.

In Table II the same adjustments have been made as in Table I, as indicated by the footnotes.

TABLE II

Total Net Operating Profits Per Share

	Five-Year Average 1937-41	1942-46	Year 1947	Current Div. Rate
*Aetna Insurance	$3.64	$3.61	$2.13	$1.80
Agricultural Insurance	6.37	4.36	—4.52	3.00
*American Equitable	1.35	0.13	1.59	1.00
[1]Boston Insurance	4.54	3.13	3.97	2.40
Continental Insurance	3.72	3.56	5.50	2.00
Fidelity-Phenix	4.11	3.99	5.86	2.20
[2]Fire Association	4.00	2.68	5.42	2.50
[3]Fireman's Fund	5.83	6.67	11.59	3.00
†Franklin Fire	1.84	0.86	1.24	1.00
*Glens Falls	3.66	3.84	4.44	1.60
Great American	2.34	2.09	2.89	1.20
Hanover Fire	1.46	1.45	1.54	1.20
Hartford Fire	8.53	7.83	11.87	2.50
Home Insurance	2.24	1.66	3.48	1.30
*Insurance Company of North America	6.10	6.58	7.71	3.00
National Fire	4.45	1.91	—2.14	2.00
[4]National Union	3.69	2.99	2.12	1.00
New Hampshire	2.63	1.78	1.72	2.00
North River	1.60	1.20	1.52	1.00
Phoenix Insurance	5.51	4.12	6.03	3.00
*Providence Washington	3.12	2.61	1.71	1.40
[5]St. Paul Fire & Marine	4.45	5.31	9.07	2.00
*Security Insurance	2.94	1.28	1.39	1.40
[6]Springfield Fire & Marine	3.79	2.68	2.55	1.90
U. S. Fire	4.10	3.14	3.98	2.00

Experiences of the individual companies vary greatly, as will be seen by a little study of the figures in the tables. On average, however, the net operating results of the second five-year period were approximately 17% below those of the first five-year period, while 1947 results were approximately 16.5% above those of the second five-year period, and only 3.5% below those of the first period. In view of the terrifically high 1947 fire losses which were 2.5 times the average of the five-year period 1937-1941, the recovery of 1947 earnings seems surprising. A simple table brings the picture out quite plainly, also the relationship of current dividends to earnings:

	Index of Earnings	Average Annual Fire Losses	Dividends, % of Earnings
5 Years, 1937-1941	100.0	$276,000,000	49.4%
5 Years, 1942-1946	83.0	427,000,000	59.7
Year, 1947	96.5	693,000,000	51.2

Another item of interest, and perhaps not widely realized, is that a number of companies achieved higher total net operating profits in 1947 than they averaged in the 1937-41 period. This is true of 12 out of the 25, as follows: American Equitable, Continental, Fidelity-Phenix, Fire Association, Fireman's Fund, Glens Falls, Great American, Hartford, Home, Insurance of North America, Phoenix, and St. Paul Fire & Marine.

On the other hand, exceptionally poor 1947 results were experienced by Agricultural, and National Fire, which reported losses. The footnotes applying to Table I and Table II are as follows:

[1] Adjusted for 10 for 1 split in 1945. [2] Adjusted for 20% stock dividend in 1945. [3] Adjusted only for change of par and increased shares in 1942. [4] Adjusted only for 4 for 1 split in 1947. [5] Adjusted for 5 for 1 split in 1944. [6] Adjusted only for 2½ for 1 split in 1947. *Capital increased as shown in list; no adjustments made in table. †No longer exists; merged with Home.

Goldman, Sachs & Co. Opening Dallas Branch

DALLAS, TEX. — Goldman, Sachs & Co., members of the New York Stock Exchange and other leading exchanges, has opened a branch office in the First National Bank Building under the direction of Rudolph Rubert. The firm has offices in 14 states and this new Dallas branch marks its entry into Texas.

LETTER TO THE EDITOR

Says Lack of Free Competition Threatens Free Enterprise

Wm. G. Lightbowne writes "Chronicle," citing curtailed output of cotton textile manufacturers, as interference with law of supply and demand.

Editor, Commercial and Financial Chronicle:

When demand exceeds supply, we are told, prices rise, and we are assured that that is the main reason for the present high price level. But high prices stimulate production, and eventually supply catches up with demand. Then, we are assured, prices will fall.

Wm. G. Lightbowne

That's the "law of supply and demand," the heart and soul of the free enterprise system. Free competition in a free market—that's all we need. No price-fixing, no regulation — the system is automatic and fool-proof. Let the government keep hands off and all will be well.

But suppose the market is *not* free? Suppose the various producing units refuse to compete, but instead get together and decide to hold up prices by restricting production?

Suppose they decide they can make more money by "balancing" production and demand at an agreed price level than by cutting prices in order to stimulate sales?

What becomes of the "free enterprise" system then? What becomes of the sacred and unrepealable law of "supply and demand" if businessmen refuse to compete?

Please page Henry Hazlitt—he may know the answer.

These questions are prompted by an article in today's New York "Times" on the textile situation. Textiles, particularly cotton goods, as any housewife can tell you, have increased in price more than almost any other article of necessity, and there is a tremendous backlog of demand due to the fact that prices have been so high that families have let their supplies of household linens dwindle almost to the vanishing point, waiting for the day when, they hoped, prices would fall and they could afford to renew their supplies.

But now, we are told by this article in the "Times":

"With textile orders indicating that lessened consumer demand has been felt at the mill level New England cotton goods manufacturers last week curtailed their output by about 20%. Fine goods mills, taking a cue from Southern producers who went on a shorter work week, reduced their operations to four days.

"Third-quarter cotton goods production, textile men said, will show the effect of curtailed operation, which has been adopted generally throughout the industry to avoid building up unsold inventories. It is expected that the cut in production will keep prices stable, although it has been argued by both distributors and retailers that a price shakedown would result in stepped-up sales. . . .

"Textile men said that without pressure of unsold inventories there would be no great necessity to cut prices to the bone. A good basic demand is still in existence, it was pointed out, and the problem now is to keep production in balance, taking into account that pipelines were well filled and that movement of goods must be assured at all levels of distribution."

There are several things to notice about this quotation. For instance, it says: "*New England cotton manufacturers* last week curtailed their production by about 20%."

Now there are hundreds of cotton mills in New England. How did all their owners reach this simultaneous decision to curtail output? If there is a "free market" in cotton goods, why didn't they compete with each other, each fighting for a share of a declining market? Is it because there is in fact no "free market" but an association of some sort through which policy is made, prices are fixed, and production controlled—in other words, the "natural laws" of economics set aside by collusion? And if that is in fact so, what of this "free enterprise" we hear so much about?

Again we read: "Third quarter cotton goods production . . . will show the effect of curtailed operations, which has been adopted generally throughout the industry to avoid building up unsold inventories. *It is expected that the cut in production will keep prices stable,* although it has been argued . . . that a price shakedown would result in stepped-up sales."

In other words, in the face of falling demand *at the present price level,* the "industry" has decided to curtail production instead of stimulating demand by lowering prices. The "natural laws" of economics presume that, in the face of falling demand, competition will become keener, prices will drop, and a level finally be reached at which production and consumption *will be equated at a price.* But it seems that the cotton "industry" has found a way to set aside the "natural laws" of economics, and instead of competing with each other for a share of the declining market, and seeking to increase sales by putting their products within reach of a wider range of consumers, they have agreed to "balance" production and demand at an agreed price level by restricting production.

Again I ask, what of this "free enterprise" we hear so much about?

One other point deserves notice: When the cotton "industry" decided to curtail output, they went on a four-day week. That means thousands of workmen laid off or put on short time, thus reducing their earnings and decreasing the total demand for commodities.

In other words, at the very time that a falling demand has been felt "at the mill level," the manufacturers lay off a lot of work people and decrease consumer demand by the amount of their former earnings. Thus the situation is worsened, because each man laid off makes it necessary still further to reduce the working force and the total of earnings to be spent in the consumers' market.

That's the way depressions come about—they don't just *happen*—they are *made.*

I don't know whether the "free enterprise" system would work without violent swings of the economic cycle or not—it's never been tried. (At least that's what Henry George said.) But this seems evident: that if the policies apparently adopted by the cotton manufacturers become general in all lines, nothing under the sun will prevent us from having another depression in due course of time.

And another thing seems evident: Our Communist friends are sitting back waiting for just that to happen, because their Prophet, Karl Marx, has taught them that the capitalist system cannot be operated without boom-and-bust. The Communists are so sure that he was right that they are staking everything on the certainty of another American depression in a matter of months.

Not all the machinations of the Communists will ever overthrow the government of a prosperous America. But if businessmen themselves continue to undermine their own free enterprise system by rigging prices and refusing to compete, then the system they believe in but do not practice may be doomed.

WM. G. LIGHTBOWNE.

Aug. 8, 1948
133 W. Grove St.
Bogota, New Jersey.

Edward Dunk Joins William H. Jones Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edward H. Dunk has become associated with William H. Jones & Co., 215 West Sixth Street, members of the Los Angeles Stock Exchange. Mr. Dunk in the past was a principal of Dunk-Harbison Co. and did business in Los Angeles as an individual dealer.

Bartling & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Bartling & Co., 650 South Spring Street, have added Carter E. Gilleland to their staff.

A Balanced Economy—Labor's View

By KERMIT EBY*

Director of Education and Research, Congress of Industrial Organizations

CIO spokesman announces as organization's basic principle "intelligent social controls to guide economy within framework of traditional American democracy." Lays previous depressions to business greed and asserts individual profit motive, if undisturbed, does not serve best interests of greatest number. Lauds "New Deal" but says it came to an end with European war. Proposes among postwar readjustments, curbing of monopoly and corporate power. Warns of another depression if "nature is allowed to take its course."

I deeply appreciate this opportunity to appear before the Fourth Annual Forum of Labor, Agriculture, and Industry to discuss from a labor point of view, the subject "A Balanced Economy in the Readjustment Period." The Congress of Industrial Organizations, which I have the honor to represent as Director of Education and Research, is probably more concerned with the problem we are considering than any other group of Americans.

Kermit Eby

It was the mass tragedy of the last great depression that gave birth to the movement we now know as the CIO. Today our six million members, most of whom work in mass production industries, are fearful of the "bust" which they have always seen follow a "boom," and they know that industrial workers are the first to walk the streets when it comes. While depression brings losses and frustration to the nation's farmers, they, at least for a time, can continue the pattern of their normal work-a-day lives. The managers and stockholders of corporations often enjoy the protection of the cushion which corporate reserves and undistributed profits provide. Although the entire population ultimately is caught in the chain reaction effect of the downbeat of the economic cycle, industrial workers and their families feel its impact immediately and tragically.

Today, once again, there are those who whisper that "a little depression might be a good thing" and those who echo the same thought when they urge us to "let nature take its course."

CIO's Basic Principles

The CIO is convinced of two basic economic propositions. First, to let nature take its course means, in fact, to allow the greedy and powerful an unlimited opportunity to enrich themselves and ultimately destroy us all. Second, we believe that with intelligent social controls guiding our economy, within the framework of our traditional American democracy, widening security and abundance can be obtained for all.

If history has value, it is in the lessons that can be learned from the past. Certainly the economic history of the readjustment period after 1917 supports the conclusions of the CIO, which I have stated.

From the end of World War I until 1933, we saw nature take its course—with a vengeance. Let us scan the high and the low points of an unhappy period of American economic history.

After World War I inflationary forces, as now, were in motion. There had been no price controls and, after the Armistice, prices soared. Labor could not then be the scapegoat because, soon after hostilities ended, unions in steel, meatpacking, and other mass production industries were ruthlessly destroyed. Without collective bargaining to protect real wages, inflation quickly reduced take-home pay, wiped out wartime savings, and undermined the ability of wage earners to buy the products of farms and factories. Ultimately supply surpassed effective demand and the postwar boom gave way to the depression of 1921. Its sharpness was intensified by the price boom which preceded it.

The period of the so-called "prosperous" 'twenties was supported by the prop of an export surplus, expansion in the auto, oil and electrical industries, and a housing boom. Yet, at its base it was subsidized by the low income of the nation's farmers who failed to emerge from the depression after 1921. Nor did American workers, still deprived of unions by the ruthless opposition of the corporations, the courts, and the police, share in the good times. Consider these facts: Between 1924 and 1929, five years of the "prosperous" 'twenties, production in manufacturing rose 27% and profits increased 72%. But wages were raised by industry, in the absence of collective bargaining, precisely 5%. The United States Steel Corporation, for example, doubled its take-home profits during this period without granting a single wage increase to its unorganized workers. Neither farmers nor workers, the bulk of Americans, earned sufficient wages to buy back the expanding production. A crash came . . . inevitably.

Your memories encompass the events of the world's worst depression. National income fell from $83 billion in 19299 to $40 billion in 1932. Platitudes from the National Association of Manufacturers and Wall Street about "Prosperity Around the Corner" notwithstanding, nature did take its course. For a decade private enterprise had been completely "free." It ruled industry and its friends ruled in Washington. Labor was impotent and ineffective with less than four million organized, mostly in the construction, printing and service trades, and in transportation. There had been no CIO, no New Deal, no "social planning" or "dreamers" to serve as whippingboys. The "practical" men of business had been running America, and they ran it into the ground. Fifteen million unemployed and a nation in chaos was the measure of their economic statesmanship. Their bankruptcy cost the country $200 billion in lost production; in human misery the cost was incalculable.

After 1929 even the college professors had to rewrite new economic textbooks. If the depression of 1921 could be discussed as a "readjustment" or "recession" after which "laissez-faire" went on to new prosperity the doctrine now became untenable. With the economy prostrate and dying, "Natural Economic Law" no longer could be made to "prove" that individuals motivated by the profit motive, if undisturbed, would best serve the interests of the greatest number.

What the New Deal Did

The New Deal wrote a new chapter. It did not try to destroy the capitalist system: it tried to revitalize it by social planning and action. Government was the only agency that could start the restoration process and frightened industrial tycoons, with their empires tottering, made no outcry then about government interference with private enterprise. In fact, Herbert Hoover heard their plea for help and acted in 1932. He established RFC, the Reconstruction Finance Corporation, to bail out with the taxpayers' billions the banks, railroads, and industries that no longer enjoyed the way nature was taking its course.

The New Deal continued RFC and saved scores of enterprises that now finance NAM's propaganda against government "interference and control." Big Business then, as now, had no harsh words against Washington when steps were taken to help those at the top. But the New Deal went further. It stated that prosperity is also dependent on the well-being of the masses at the bottom, that spending money in the pockets of farmers and workers is also a prerequisite to a prosperous America. And it set out to do something about it.

In the cities the unemployed were taken from relief lines to the WPA, while PWA provided further employment and industry received indirect stimulous through a national program of public works. Low-cost housing projects, unemployment and social security, and minimum wages were inaugurated. Banks were restored to order and their deposits insured. The HOLC intervened to stop sheriffs' foreclosures while NYA helped thousands of youths to remain at school.

In the countryside soil conservation and price support programs gave new hope to the farmer, rural electrification was widely extended, and cooperative buying and marketing was encouraged. TVA was established to harness a whole river to provide electricity, navigation, soil conservation, and flood control to enrich the life of a seven-State region.

In steel mills, auto shops and the rubber and textile plants of the nation, the legions of the CIO were organizing. The National Labor Relations Act protected this right from employer interference and, for the first time, collective bargaining was being practised at the heart of mass production enterprise. The CIO was a revolt against starvation wages, insecure jobs, unreasonable foremen and the speed-up. Workers wanted to be treated like people; not as parts of a machine. But even more important, as Americans believing in democracy, they wanted some share in the decisions that shaped their lives.

The New Deal gave new hope to the nation. Born in an atmosphere of crisis it often worked with improvised plans and impetuous planners. Enthusiastically supported by labor and agriculture and, though grudgingly, by large segments of business and the well-to-do—the New Deal sought to mesh the interests of all groups into a pattern of greater national welfare. Despite today's reactionary carpers, it made a record in American history which will grow even greater as time gives perspective. The New Deal, in six years, did not bring the economy to a state of boom. While it saved countless private enterprises from bankruptcy and returned them into profitable ventures, it gave workers and farmers new protection and dignity, and attempted to preserve and restore the national resources of the country. Above all, it supplanted the legend of laissez-faire and the belief in the inevitability of boom and bust, and gave Americans a new belief in their power to intelligently control the economic environment in which they live.

End of New Deal

The invasion of Poland by Hitler ended the New Deal in America. Defense preparation and war created a new era; total mobilization of the nation required a totally planned economy. The Federal Government ran the national enterprise, deciding what should be produced and by whom, allocating materials and, above all, underwriting the costs of the goods and services it commandeered. No nation operating under democratic institutions with the exception of England, organized itself more completely or effectively in order to produce. And the management of the war economy, due in great measure to the much derided "planners" of the New Deal, was highly effective. Even the best efforts of the 80th Congress has failed to besmirch their record.

This time the profit was to be taken out of war . . . at least it was intended that way. Yet, with powerful anti-administration spokesmen denying the likelihood of war, even while the lowlands were being overrun, business was complacent in the face of 1940 profits which were higher than any time since 1929. The now favorable rules of supply and demand were only relinquished by industry in exchange for total conversion after Congress had pledged "guaranteed" wartime profits and other considerations, including a five-year amortization allowance for new capital investments.

Agriculture, remembering the tragic price collapse in 1921, sought and obtained guaranteed price support, extending beyond the end of hostilities. Labor received no war and postwar guarantees beyond promises of price stabilization and cost-of-living wage adjustments, should they be required. CIO gave a no-strike pledge, and it kept it. Labor's chief wartime benefit was job security and the overtime work, with its increased earnings, which was urged upon it.

Never in history had the world seen such an outpouring of goods from farms and factories. Between 1939 and 1945 the gross national product of America, the total value of the goods and services produced by the nation, catapulted from $90 billion to $213 billion.

From where did the money come? It came from the Federal treasury which between 1940 and 1945 paid out $360 billion to underwrite the costs of the Arsenal of Democracy. Where did the money go? It reached every segment of the public, although often inequitably, as profits, rents, interest fees, wages salaries or farm income. Part of the golden stream was diverted back to the Federal treasury surplus profit, income, and luxury taxes. But even so the government gave out $200 billion more than it took in. This it raised by borrowing.

With half of our production going to war a terrific inflation would have engulfed us but for the price controls enforced by OPA. Coupled with a vast War Savings program and restrictions on consumer credit and wages, living costs were held in check. Through the stabilization program billions were saved by the government which inflation would have added to the cost of war. The lessons of economic planning learned

(Continued on page 38)

*An address by Mr. Eby at the Fourth National Conference of Agriculture, Labor and Industry, University of Wyoming, Laramie, Wyo., Aug. 2, 1948.

With Patten, Arnold & Co.

PORTLAND, MAINE—John P. Ayer is now with Patten, Arnold & Co., 477 Congress Street.

Mutual Funds

By HENRY HUNT

If I Were a Retail Salesman

The seventh article in this series was contributed by Henry T. Vance, Senior Partner of **Vance, Sanders & Co.**, the nation's largest underwriters of mutual funds, which include **"M. I. T."** with assets of some $225 million; **Massachusetts Investors Second Fund, The Boston Fund** and **The Bond Fund of Boston.** Combined assets of these four funds exceeded $277 million as of June 30.

The "Big Four" of the "Hub"

Boston, the home of the New England trusteeship tradition and the birthplace of the mutual fund, is headquarters for **Massachusetts Investors Trust**, the nation's largest, with assets of some $225 million distributed by **Vance, Sanders & Co.**

Second largest in Boston as well as in the nation is **Keystone Custodian Funds** with assets of more than $180 million. Originating in Philadelphia, **Keystone** adopted Boston as its home some 10 years ago.

In third place is **William A. Parker's Incorporated Investors,** which was organized in 1925 and had assets on June 30, 1948 in excess of $75 million. **"Incorporated"** is the third oldest mutual fund, **"M. I. T."** and **"State Street"** having preceeded it by about one year.

Second oldest and fourth in size in Boston is the **State Street Investment Corporation** with assets of aproximately $72 million. **"State Street"** is not currently offering additional shares for sale as it feels that too large a fund becomes unwieldy to manage. The high regard in which its management is held is indicated by the fact that its shares command a premium above asset value in the "open" market.

Other Boston funds that have been coming up in the world in recent years include:

FUND	NET ASSETS as of June 30
Eaton and Howard Balanced	$36,845,000
The Boston Fund	33,035,000
George Putnam Fund	26,747,000
Fidelity Fund	19,041,000

Nearly half of all mutual fund assets are currently lodged in Boston, which if no longer the hub of the nation, may truthfully be called the hub of the mutual fund business.

"Fundamental" Favors Equities

Edmund Brown, Jr., President of **Fundamental Investors**, in his latest report to shareholders states:

"The present market is supported by high earnings, good yields and the prospect of well-sustained employment and purchasing power. Shortages are still unrelieved in automobiles, steel, building and many types of heavy equipment. The prosperity is widely diffused among industrial producers and farming areas, and while the dangers inherent in further wage-price advances are apparent to all, there is no serious rift in sight. The trend of over-all production and of spendable incomes is still very strong.

"Accordingly, it must be assumed that a substantial investment in common stocks is still warranted; and the problem is one of selecting the more favored industries and most promising securities. For certain companies the problem of adequate capital to meet the requirements of high volumes and high prices is quite acute. **This** situation calls for discrimination and a preference for enterprises with ample treasury resources."

Lend-Lease Technicians

"These Things Seemed Important," issued by **Selected Investments Company,** quotes R. W. Gifford, Chairman of Borg-Warner International Corporation as follows:

"America's cash loans and grants of materials will not in themselves suffice to make Western Europe self-supporting. Sections of her industrial machine must be modernized. . . . The European Recovery Plan has the support of most of the American people, but it may not continue to receive this support unless the American public and Congress are convinced the funds are being used effectively and the desired result—a greater and more permanent economic stability in Western Europe—is actually on its way to being accomplished. The presence of American technicians would not only increase European productivity and raise the general standard of living, but also help make both nations (U. S. and the European beneficiary) self-sustaining and economically strong enough under a

If I Were a Retail Salesman

(Seventh of a Series)

By HENRY T. VANCE,
Senior Partner, Vance, Sanders & Co.

Investing wouldn't be much of a problem if all of us had sufficient capital to purchase a broad portfolio to minimize risk; if all of us could devote our full time to supervising our holdings; and if all of us could afford to sustain highly-trained research staffs. The average investor cannot meet all these requirements. Most cannot meet any of them —that is, as individuals.

Henry T. Vance

You will be interested to know that some 600,000 investors in this country have found that one of the best solutions to this problem lies in the ownership of the shares of open-end investment companies.

An open-end investment company is sort of an investors' cooperative. It operates on the simple principle that a **group** of investors by pooling their capital in one large fund can obtain the same advantages investment-wise that large financial institutions and very wealthy investors enjoy.

The investment company invests the pooled capital of its shareholders in a broadly diversified and carefully selected list of securities chosen for their investment merit; it collects the interest and dividends paid on these securities and distributes this investment income to shareholders in regular quarterly dividend payments. In short the investment fund does **for** the investor just exactly what the investor would do himself.

Open-end investment companies are not new; they have been in operation for more than two decades and have firmly established their value and merits. They have proved successful primarily because they effectively utilize the two vital essentials to investment success: (1) diversification—to minimize risk; (2) continuous investment supervision by qualified investment specialists.

In most cases, participation in an open-end investment company is through ownership of shares of stock. These shares are all of one class, having full and equal voting power and representing equal and pro-rata interests in the assets and earnings of the company.

The term "open-end" is descriptive of the fact that the investor can withdraw his proportionate interest in the fund at any time simply by presenting his shares for redemption. This redemption privilege is guaranteed in the basic legal instrument under which the company operates.

Not all open-end investment companies are alike with respect to investment policies and objectives. Some invest primarily in common stocks, some invest only in bonds, others include both these types of securities along with preferred stocks. An investor thus has an opportunity to choose the type or combination of types of investment companies which best suit his individual requirements.

Small, medium and large investors alike have found that open-end investment companies afford one of the soundest and surest means of achieving satisfactory investment results. The average investment in the older and better known companies amounts to around three to five thousand dollars, but investments by individuals range from a few hundred dollars to over a million dollars.

Schools, colleges, charitable organizations, associations, churches, insurance companies and a variety of other institutional investors utilize open-end investment companies to advantage for a portion or all of their investment funds. In all, several hundred million dollars of institutional and fiduciary funds are invested in shares of open-end investment companies. This is especially significant because such organizations usually are governed by experienced trustees or financial advisors who investigate carefully and intelligently before investing.

In conclusion it can be said that ownership of shares of an open-end investment company represents in **one security** participation in a sound investment **program** administered in accordance with the time-tested principles of successful investing and affording conveniently and economically a common sense method of investing with a minimum of risk and a maximum assurance of satisfactory results.

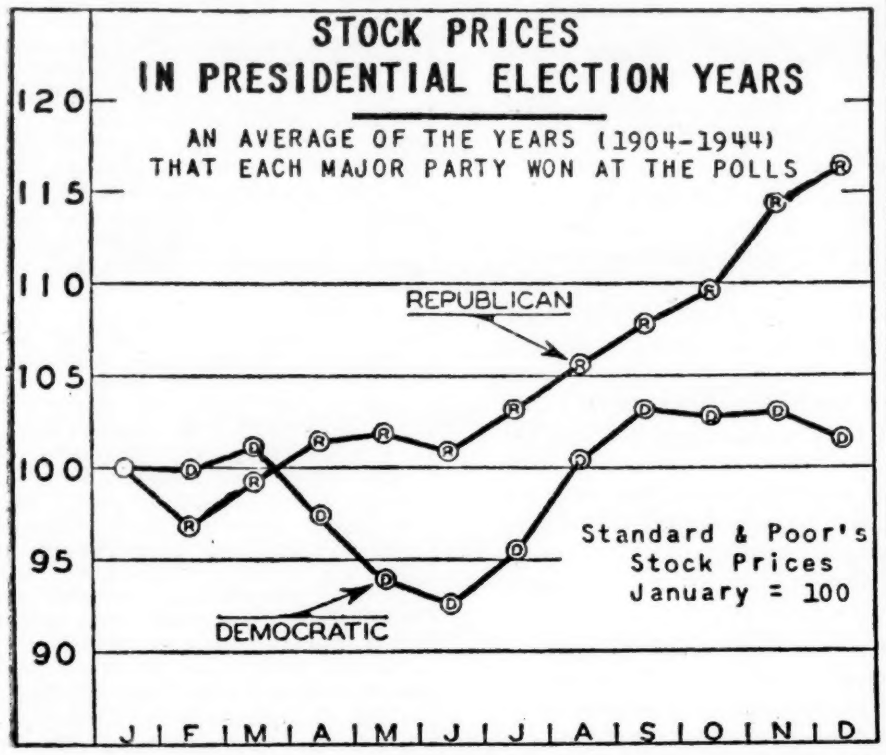
system of individual business enterprise to resist the lure of Communism."

Presidential Election Years

Hugh W. Long's August **"New York Letter"** has the following to say about stock prices in presidential election years:

"Do stock prices generally advance or decline in presidential election years? This question is raised as Congress reconvenes and we enter the campaign period when statesmanship so often bows to political expediency.

"Stock prices generally advance in presidential election years. The extent of the rise appears to be influenced by whether the Republicans or the Democrats win. Substantial price gains extending beyond the election are usually experienced in years of Republican victories. This is shown by the accompanying chart which summarizes a study prepared recently by Standard & Poor's Corp.



"There were only three presidential election years since 1900 when the market did not advance. A study of conditions during those years throws further light on the prospects for the stock market during the balance of 1948, so far as it may be influenced by the election background.

"The most recent exception was 1940. This can be accounted for largely by the unfavorable developments in the war and the growing realization of our involvement in the conflict. The other two exceptions were 1920 and 1932.

"These were depression years. But, we are now in a very prosperous year. Production and employment are at approximately capacity levels and it is strongly indicated that this will continue beyond 1948. Corporations, as a group, are reporting increases in earnings and dividend payments. **Therefore, business conditions in 1948 should encourage repetition of the historical pattern of advancing stock prices during presidential election years."**

Fear of Fear

In a new pamphlet with the title "A Republican Administration Would Foreshadow Business and Investor Confidence," **National Securities and Research Corp.** concludes:

"The outstanding effect of the election of a Republican Administration would be the ending of a period in American history in which the pendulum swung far to the left—it would mark a return to more normal American habits in economic life. The days of 'trial and error' and of expediency as the major guide would end. The era of belaboring capital for all woes would be closing. These are both psychological and actual factors. A more even balance between capital and labor would follow and usurpation of government by elements hostile to the American way of life should terminate.

"It is often and correctly said that business can adapt itself to almost any set of rules. But the disrupting influence of the policy of expendiency is that the rules are constantly changed. Under a Republican Administration, not only more favorable economic attitudes should exist, but continued rule changing should cease. With a strong personality as President and a Congress dominated by the same party, we should see an increase of confidence of the American people in their government and themselves; and an increase of international confidence in the United States. These influences would be of the strongest favorable nature on business and security markets. The time of having nothing to fear but fear itself, yet nevertheless fearing it, should be over.

NSTA Notes

NSTA CONVENTION—GOLF TOURNAMENT

Golf on the beautiful links of the Dallas Country Club will be the star attraction of the day on Monday, Nov. 15. The Dallas Bond Club will be host to an all-day tournament consisting of some 20 events.

Beautiful sterling silver bowls for each member of the winning team have been donated by the National Quotation Bureau, with the Blue List donating the tournament prizes for Municipal men.

Fallacies and Dangers in New Credit Curbs

(Continued from page 4)

that the proposal for increased reserves as it affects demand deposits means an increase of 70% (viz. from 14% to 24%) in country banks, 50% (viz. 20% to 30%) in reserve city banks and 40% (viz. 26% to 36%) in central reserve city banks.

It has been estimated that if put into effect these increased reserves will immobilize some $10 or $11 billion of the assets of the banks. This cannot by any means be called a moderate increase. It is a drastic proposal which if put into effect will affect banks and borrowers alike, and could seriously affect the economy itself.

The argument may be made that while authority is given to do this, it may not necessarily be immediately exercised. As a matter of fact, mere passage of such a law creating the authority to invoke these drastic increases in bank reserves puts every bank on notice that these powers may be used. It makes it necessary for banks to modify their investment policies, in anticipation that the powers may be used, almost as if the powers actually were fully in effect. This is true because it is inevitable that these powers will be used and these extra reserve requirements put into effect at the time when banks are least able to meet the requirements. Sound bank management requires anticipation of such an action. I believe Mr. Eccles has affirmed this by testifying that every bank would have to keep itself in position to meet these reserve requirements. In principle, legislative authorization of any such increased reserve requirements, even though only in the form of authority, might well have the same effect as if they were immediately fully imposed.

Increased Reserves for Non-Member Banks

Another point in connection with the proposal to increase bank reserves is that it applies only to member banks of the Federal Reserve System. There has been testimony to the effect that if enacted this proposal should be made to apply to all banks, whether member or nonmember banks.

There have been questions raised as to whether this increased reserve proposal can be legally applied to nonmember banks. Up to this time, state laws have controlled the reserve requirements for state nonmember banks.

If the proposal is amended to make it apply to all banks, regardless of whether or not they are members of the Federal Reserve System, such a step would be an encroachment on the principle of dual banking, and an invasion of the rights of the states and the state banks they charter and supervise. In effect, the reserve requirements imposed by state law and regulation would be nullified, and in their place would be substituted the requirements dictated by a governmental agency in Washington.

For the foregoing reasons the Association is opposed to the inclusion of non-member banks under this proposal.

There are several major questions about the proposal for additional reserve requirements which need careful consideration.

The first is the question as to whether these increased reserves are necessary, and particularly whether they are necessary now. In this connection, certain facts should be pointed out. First, the voluntary credit control program of the American Bankers Association is being actively continued and has already produced results. Second, the Federal Reserve and the Treasury already have powers which are adequate to meet not only the present situation but also any situation which could arise between now and the time the next regular session of Congress convenes. The short-term rate on government securities can be further increased, and there has been some discussion of such a step. The rediscount rate can be further increased. Moreover, there is also the power to sell government securities now held in trust funds or by the Federal Reserve.

There remains a 2% increase which can be made in the reserve requirements of the central reserve cities. However, it has been said that the final 2% increase in New York and Chicago has not been necessary.

There was action taken along these lines in December and January. This had a salutary, cautionary effect.

Federal Reserve Has Not Used Its Powers

Under Section 301 of the Federal Reserve Act, the Federal Reserve Board is charged with the responsibility of obtaining necessary information on the use of credit and controlling the proper use of credit. With that authority, the Federal Reserve Board is given the right to refuse rediscount privileges to member banks under appropriate circumstances. This could be made the means of any necessary disciplinary action.

The Federal Reserve System and its 12 Federal Reserve Banks constitute a source of natural leadership, information and power to control the use of credit at the local and individual bank level without the enactment of new laws. What the American Bankers Association has been able to do in a voluntary and cooperative program is an example of what could have been done under the leadership of the Federal Reserve System, had the System been willing to accept and use that principle rather than to ask for additional powers.

We emphasize that the Federal Reserve Board and the Treasury already have sufficient powers and that the granting of any additional powers, particularly powers as drastic as those proposed, should be given only on specific evidences of what increases are needed now and before the next regular session of Congress, why they are needed, and what effect they will have on the credit structure and the economy of the country.

Effects of New Reserve Requirements

The second major question concerning the new reserve proposal is whether or not it will be effective.

With banks holding large amounts of government securities and the Federal Reserve ready to absorb them, it is not apparent how increased reserve requirements can reduce reserves available for loans. The banks can sell government securities in order to acquire those reserves.

This proposal would not apply to other sources of credit or to direct and indirect government lending agencies. The proposal aims to restrict only the credit activities of member banks and leaves all other types of lenders free to continue lending as they are doing now.

This proposal can be nullified by other inflationary acts or other causes of inflation outside the banking system.

The powers granted in this proposal will not reduce prices or the cost of living unless used so extensively that they result in denying needed credit to productive business, thus pulling down both employment and production.

The third major question is whether or not this proposal has any elements of danger in it. The proposal is an action which hits member banks equally, regardless of their individual loan and investment positions. It tends to freeze the banking system uniformly, regardless of varying local credit needs.

Credit has two aspects. One relates to consumption, and the other to production. The use of credit follows prices and business volume. Someone has to ask for credit before it is granted. Its use is based on the need for it. If business activity is to be continued at the present volume and at present high price levels, there will be a continuing need for a correspondingly large use of credit.

We must be careful not to contribute to an economic reversal so freely prophesied and wished for by the Soviets. We must be sure that the cure proposed does not bring a reaction worse than the disease. Credit on a national basis is a delicate mechanism. Rude handling can produce disastrous chain reactions.

Reference has already been made to the fact that if this proposal is enacted the banks will be put on notice to prepare for the full imposition of the requirements. We do not know what the future has in store for us. At the beginning of 1947 everyone was convinced a recession was imminent. Now, we have inflation, and everyone seems convinced that more inflation is inevitable. We cannot afford to take any action which may prove to be the spark that sets off a drastic reversal.

This proposal is an emergency action. It is proposed before an emergency session of Congress. Such an action, taken in haste and under the emotional stresses and strains of the present situation, may not be as well thought out as it should be.

We oppose the proposal to give the Federal Reserve power to increase bank reserve requirements because there is no evidence that it is immediately necessary or warranted; because it is not directed at the fundamental causes of inflation; because it includes elements of danger to the economy; because it is an emergency action taken under unusual political and emotional circumstances; because it is an action in a single limited area of the inflation problem; because the proposal has such broad implications that it needs further extensive study as to its possible effects; because it is an unnecessary addition to the regulatory powers of a governmental agency; and because adequate, unused powers already exist.

We are all concerned with the general problem of inflation and high prices. There is no easy answer or easy way to meet the problem. There is no single act which will correct it. There is nothing that can be done that will be painless. There have been many years of excessive government spending, government deficits, and government-sponsored easy money. These have brought us to our present difficulties. If the problem is to be corrected, these policies must be reversed. What is needed is a consistent anti-inflationary government policy. The basic answer to our inflationary problem is to so conduct our fiscal affairs that we insure budget surpluses which, appropriately used, can provide the necessary anti-inflationary effect.

Joins Bowman Associates

(Special to THE FINANCIAL CHRONICLE)

PACIFIC PALISADES, CAL.—Hans Klehmet II has become connected with Bowman Associates, 15316 Sunset Boulevard. He was formerly with Klehmet & Co. and Gross, Van Court & Co.

Canadian Securities

By WILLIAM J. McKAY

The undesirability of multiple exchange rates is fully recognized by the leading monetary authorities of the world but little success has been achieved as a result of the efforts designed for their elimination. In most cases the multiple system has been virtually dictated by the compulsion of economic necessity and current conditions do not yet permit a return to normal procedure. In other cases the countries concerned regard their exchange situations purely from the domestic point of view and a blind eye is turned to the possible effects on the international exchange position in general.

There is one case however that is usually overlooked where it would be possible to take the initiative to blaze the trail towards a return to free conversion of currencies. Canada, as a wartime measure, was obliged to adopt a strict system of exchange control, an important feature of which was the establishment of more than one rate of exchange. The official market continued to be employed for commercial purposes but the proceeds of capital and other non-commercial operations were convertible only at the unofficial rate of exchange quoted in New York. Although this permitted a certain measure of freedom to U. S. investors in Canada, the limited nature of the so-called "free" dollar market and its divorcement from any effective control by the Canadian authorities, has been a constant cause of embarrassment on both sides of the border.

For this reason alone it is logical to suppose that the related problem of the U. S. investment position in Canada and the Dominion's "exchange step-child" in New York is receiving constant attention in Canadian official quarters. It is also reasonable to assume that in the absence of the impact on the Canadian exchange position of the British economic crisis, the solution of this problem would before now have been in the realm of practical politics. As matters now stand the Dominion appears to have successfully surmounted its immediate economic difficulties and the exchange reserves are now at the comfortable level of approximately $750 million in comparison with the December low-point of $460 million. Of still greater importance is the fact that as a result of the re-orientation of Canadian international commerce, the diversion of exports to this country from soft-currency areas, is steadily reducing the chronically unfavorable U. S./Canadian trade balance.

Thus conditions are becoming increasingly favorable for serious consideration of the removal of the restrictions on the free movement of capital funds between the two countries and the concomitant abolition of the embarrassing "free" dollar market. The recent private loan of $150 million granted to the Dominion by a group of U. S. insurance companies has fully demonstrated the high standing of Canadian credit in this country, but with complete freedom of capital movements between the two countries, the Dominion's borrowing scope in this country would be widened immeasurably. Consequently not only would Canada be in a more favorable position to attract new U. S. capital which is indispensable at the present stage of the Dominion's economic development, but such a development would also provide the solution of the problem of Canada's indirect indebtedness to this country. With the removal of exchange control and the disappearance of the "free" exchange market the proceeds of the redemption of Canadian internal obligations in the hands of U. S. holders would be convertible at the official rate. Thus the Dominion authorities would be responsible for the provision of the U. S. dollar counterpart, and in the event of undue strain on the official exchange reserves these operations could be financed with the proceeds of new loans raised in this country. At the present time the fact that the proceeds of redemptions of Canadian obligations held in this country are sold in the "free" dollar market in New York in respect of which the Canadian authorities have no direct responsibility again emphasizes the anomalous position of this unsatisfactory market.

During the week there was an easier tendency in both the external and internal sections of the bond market but activity remained at a low ebb. Free funds were steady despite continued offerings in connection with the November bond redemptions. Stock prices declined generally after an earlier rally led by basemetal and Western oil issues.

Robt. F. Carroll Is With Doremus & Co.

William H. Long, Jr., President of Doremus & Co., announces that Robert F. Carroll has joined the public relations department of the agency. Mr. Caroll has worked in the editorial and financial advertising departments of the New York "Times" and as a special agent for the Federal Bureau of Investigation. Following wartime service as a bomber pilot, he joined the engineering staff of Aero Insurance Underwriters, and more recently was associated with the public relations staff of the National Board of Fire Underwriters.

Definitive Netherlands Bonds Now Available

The Chase National Bank of New York announces that Kingdom of the Netherlands 10-year 3¾% external sinking fund bonds due May 1, 1957, in definitive form, are available for delivery in exchange for temporary bonds, at its Corporate Trust Department.

Let's Get This Straight

"If you want to work through credit measures to meet existing problems in the old-fashioned way, however, you will really want to aim at credit contraction. The steps in the process are restriction of the money supply, rise in interest rates, contraction of employment and production, contraction of income. And to add to the difficulties of using this 'tried and true' method of ending a boom, we now have the added complication of a government debt of $250,000,000,000, which is in continuous process of refunding, and which includes a large demand liability, and we have a government security market sensitive to every wind that blows.

Allan Sproul

"In order to be sure of getting results we should have to use our powers, with or without this proposed added authority to increase requirements of member banks, without regard to interest rates and the government security market. Our action would have to be drastic enough to lower the money income of a large section of the consuming public. To accomplish this by over-all monetary or credit action would probably mean a serious decline in production and employment. In view of our domestic needs and our international commitments, I still cannot believe that it is the right policy."—Allan Sproul.

By and large, there are of course, the problems which would be encountered in any vigorous "anti-inflation" policy by the Reserve System—and this rather obvious fact is one which many have grown quite skilled in blinking and ignoring.

Such a policy we could stand readily enough if wisely pursued—providing the New Deal and all its works were simultaneously dumped overboard.

Outlook for Capital Outlays

National Industrial Conference Board survey indicates most corporation executives expect decline in capital outlays in 1949 and do not look for increased capital needs because of rearmament program

Capital expenditures by industry in 1949 are expected to show a downward trend, according to the latest monthly survey of current business practices conducted by the National Industrial Conference Board. A majority of the company officers cooperating in the survey look for a decline although a significant proportion expect capital outlay in 1949 to closely approximate that for 1948. A relatively small number are planning on increasing capital expenditures.

Underlying Factors

The general downward trend of capital expenditures after 1948 is attributed to several factors. The high construction costs which prevail are "a severe handicap" on continued expansion of plant facilities. "As a result of this spiral, a structure which cost $3.20 per square food to build before the war will now cost a company $15.20 per square foot." To avoid borrowing funds many companies report that they are constructing only necessary additions to their present plant facilities.

Another reason often mentioned for this "tapering off of capital needs" is the completion of many of the postwar improvement plans which were set up after V-J Day. These plans, many of which ran for three years, are reported as being completed late this year and early in 1949. In other cases, "large amounts of capital were expended" to purchase plants which were being leased from the government during and immediately after the war. Still another cause of large capital expenditures was the "retooling required" during the postwar period.

Sources of Capital

Retained earnings furnish the bulk of the capital requirements for more than three-quarters of the companies surveyed. Next most important source for funds is "current depreciation." About half of the companies surveyed rely on this method to pay part of their capital expenditures. In practice, most companies report that they use a combination of the two methods to meet a large proportion of their capital needs.

Some of the companies surveyed, about 5% of the total, financed "a substantial part of their capital needs" through stock or bond issues. A few companies stated that they resorted to bank loans and insurance company loans to meet capital expenditures.

Retained Earnings

Companies reporting that earnings reserves took care of much of their capital expenditures "had to resort to other means of financing as well." Actually, the greater number of these companies point out that earnings did not pay for more than 50-75% of the total capital needs.

Most of the iron and steel companies report that a relatively high proportion of their capital needs were met out of retained earnings. This was also true of textile manufacturers, the majority of whom paid for about 65% of their capital expenditures with retained earnings. On the other hand, the majority of petroleum companies (all of which are comparatively large concerns) pay for "only about one-third of their capital needs" from retained earnings.

Depreciation Reserves

Depreciation reserves provided for funds for anywhere from 6-75% of the total capital expenditure for the reporting companies. The greatest number reported that depreciation reserves accounted for about 35% of their capital outlay. Many companies that exact natural resources, such as the mines and oil concerns, pay for "a substantial proportion of their capital requirements from liberal depletion charges."

The companies resorting to public flotation to secure capital are in most cases large, well-known concerns. The typical company in this group accounted for 45% of its capital needs through stock or bond issues.

Those companies which used short-term bank financing to meet capital needs stated that they secured, on an average, about 46% of their capital needs by this method.

A handful of companies reported that long-term bank loans furnish a portion of their capital needs. The average company in this group secured about half its capital from this source.

Some companies mentioned other sources for funds. Large insurance loans were used in several cases to finance building costs while retained earnings and depreciation charges were sufficient to meet other capital needs.

Effect of Rearmament

The rearmament program is not expected to increase the capital needs of most of the companies surveyed. According to many of the cooperators, the expansion which was carried on during the last war emergency and the recent postwar period "has been sufficient to take care of any additional production which might be necessary in the near future."

The general belief is that a rearmament program will require "increasing use of second and third shifts and stepped-up production schedules" rather than expansion of physical plant facilities.

A. G. Becker & Co. Offers Ashland Oil Pref.

An offering of 350,000 shares of Ashland Oil & Refining Co. $1.20 cumulative convertible preferred stock was made, Aug. 10, at $24 per share by an underwriting group headed by A. G. Becker & Co., Inc. Of the total offering, 250,000 shares are being sold by the company to provide additional working funds which are to be available for its expansion and development plans, and 100,000 shares are being sold by two individual stockholders. The new stock will be convertible into common, share for share, prior to July 15, 1958.

The current financing follows closely on the merger of Allied Oil Co., Inc., of Cleveland, into Ashland, which was effected earlier this month through an exchange of stock. Ashland is one of the principal figures in the oil industry in the Ohio Valley, with refineries at Catlettsburg, Ky., extensive river transportation and pipe line facilities and producing properties in Kentucky, the Illinois basin and elsewhere. Allied's business has included the operation of Great Lakes tankers, a large industrial fuel oil business, refining facilities and, in recent years, a growing interest in production properties.

The company, as now constituted is one of the principal stockholders of American Independent Oil Co. which recently was granted the important oil concession in the neutral zone of Kuwait. Combined earnings of Ashland and Allied amounted to $4,343,000 in the last fiscal year, and to $5,030,000 in the six months ended March 31, 1948, the latter figure being equivalent to more than 18 times the dividend requirement on the $450,000 shares of convertible preferred stock to be outstanding.

Snyder Reports on Foreign Financial Aid

As Chairman of National Advisory Council on International Monetary and Financial Problems, Secretary of the Treasury analyzes major financial problems of postwar period. Says more than $18 billion of U. S. assistance was made available during first two and one-half years following war.

Secretary of Treasury, John W. Snyder, as Chairman of the National Advisory Council on International Monetary and Financial Problems, on Aug. 4 transmitted to the President and to Congress a report of the Council's activities during the six-month period ending Mar. 31, 1948.

John W. Snyder

The report analyzes the major financial problems of the postwar period and describes the background of the Foreign Assistance Act of 1948.

The report also deals with recent developments in connection with the Anglo-American Financial Agreement and credits extended by the United States Government agencies such as the Export-Import Bank, as well as with considerations underlying the extension of financial assistance to China, to the German Bizone and to France, Italy and Austria in the form of interim aid. A resume of the affairs of the International Monetary Fund and the International Bank for Reconstruction and Development is given for the six-month period Oct. 1, 1947 to Mar. 31, 1948.

In its review of the postwar international financial situation the Council pointed out that by the middle of 1945 it had become clear that many foreign countries would urgently need assistance in the reconstruction of their economies. In addition to widespread physical damage, the war produced serious economic dislocations. The report cites the difficulties in connection with the balance of payments between these countries and the United States. In the two and one-half year period ending Dec. 31, 1947, foreign countries received a total of $41,600,000,000 in goods and services from the United States while their exports to this country were only $19,200,000,000. Foreign aid programs of the United States provided $14,600,000,000 and the countries used $5,300,000,000 of their gold and dollar reserves.

As pointed out in the report, a total of $18,200,000,000 of United States assistance was made available during the two and one-half year period of which all but $3,600 000,000 was utilized by the end of the period. Despite the fact that more than one-half of all United States foreign aid was received by those countries which later became participants in the European Recovery Program, the unutilized funds as of Dec. 31, 1947, were barely sufficient to meet the need for aid until the start of that program.

During the first year of United States postwar aid, assistance was primarily in the form of grants such as those extended through UNRRA, while in the next year and a half assistance was mostly in the form of loans. Over the entire period slightly more than one-half of all aid was in loans while the remainder constituted grants.

A comprehensive appendix of statistical tables summarizing the United States foreign assistance program since July, 1945, is contained in the report. These tables not only shows the amounts made available to each recipient country but also, in the case of loans, the total postwar commitments made by the major United States Government lending agencies to each foreign country. With this report the U. S. Government has resumed publication of information on gold transactions with leading countries which was discontinued during the war.

BLS Raises Estimate of New Construction

Reports record of $18 billion for new construction in 1948 with 2.4 million workers by September. This compares with previous estimate of $15.2 billion and slightly more than 2 million workers.

Latest estimates of the Bureau of Labor Statistics, U. S. Department of Labor, revealed that about 2.4 million workers will be employed by construction contractors next September, when 1948 construction activity is expected to be at peak. The current outlook for contract construction employment is based upon a revised estimate of anticipated expenditures totaling $18 billion for new construction in 1948, prepared jointly by the Bureau of Labor Statistics and the Office of Domestic Commerce. Estimates made last November had placed the 1948 dollar volume of new construction at $15.2 billion and peak contract construction employment at 2,150,000 workers.

Upward revisions were made partly to allow for the enlarged scope of the definition of public utilities construction recently adopted by the two agencies. But even exclusive of that adjustment, the estimate made in November was raised by about 12%, primarily because expenditures for new residential construction have been advancing more rapidly than anticipated last fall. This larger volume reflects the unexpected predominance of higher-priced housing thus far this year over homes for moderate and low-income families.

Remaining unchanged is the Bureau's earlier estimate of 950,000 new permanent nonfarm dwelling units to be started with private funds in 1948. The number of publicly financed units, however, is now expected not to exceed 7,500, compared with 20,000 anticipated previously. Adjustment of the Bureau's public housing estimate follows the failure of Federal housing legislation to materialize earlier in the year.

The current estimates assume that prices will continue to rise gradually during the balance of 1948, with average prices for the year from 10 to 15% above 1947. It assumes also that no major business recession or important work stoppages affecting construction will occur this year. In considering the influence of defense preparations on construction activity during the next six months, allowance was made only for sums already appropriated and contracts authorized.

All but about 200,000 of the 2,400,000 workers expected to be employed by contractors in September will be working at the site of construction projects. Well over half the site workers will be skilled mechanics. New residential building is expected to absorb a third of all site workers, more than half a million of whom will be skilled and almost a quarter-million semi-skilled and unskilled. The total amount of contract construction employment anticipated for September, 1948, will exceed last year's top figure by almost 300,000, but will be under the war peak of 2,577,000 in August, 1942.

The unprecedented dollar volume of new construction expected for this year will exceed 1947 expenditures by slightly over $4 billion, or 29%. By contrast, physical volume in 1948 (dollar volume expressed in 1939 prices) probably will be only 15% above last year's performance, but about 20% below the wartime high in 1942. In other words, the purchasing power of the construction dollar has declined until the amount of work estimated to cost $18 billion today could have been done in 1939 for around $8½ billion.

It is anticipated that the dollar volume of new private work will total $13.9 billion this year, a gain of close to $3 billion over last year. The expected $7.1 billion outlay for privately financed residential building represent an increase of 35% over 1947 and accounts for nearly two-thirds of the probable gain in all private work. A 65% rise in expenditures for commercial building is expected to bring private nonresidential building as a whole to $3.8 billion, despite the fact that industrial building will probably be 16% below the 1947 total. Privately financed public utilities construction, at $2½ billion, will be almost a half billion dollars ahead of last year. Estimates for 1947 and 1948 are compared on the basis of the revised concept of public utilities construction which now includes certain items formerly considered as capital expenditures for equipment, as well as electric light and power construction financed by the Rural Electrification Administration, previously excluded.

Given impetus by continued expansion of peacetime programs for educational, hospital and institutional building, highway, sewer and water construction, and conservation and development work, public construction activity is expected to reach a total of $4.1 billion in 1948, a 35% gain over 1947.

Halsey Stuart Offers C. & O. Equipment Issue

Halsey, Stuart & Co. Inc. and associated underwriters on Aug. 10 were awarded $3,600,000 Chesapeake and Ohio sixth equipment trust of 1948 2⅝% serial equipment trust certificates, due $360,000 annually Sept. 1, 1949 to 1958, inclusive. The certificates, issued under the Philadelphia plan, were re-offered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.65% to 2.75%, according to maturity.

Proceeds will be used to provide for not more than 100% of the cost of the following new standard - gauge railroad equipment estimated to cost approximately $3,690,692.40: 12 Type 0-8-0 Switching Locomotives and Six Type 2-6-6-6 Freight Locomotives.

Associated in the offering were A. G. Becker & Co., Inc.; Gregory & Son, Inc.; First of Michigan Corp.; Freeman & Co., Hirsch & Co., McMaster Hutchinson & Co., Wm. E. Pollock & Co., Inc., Mullaney, Wells & Co., Alfred O'Gara & Co. and F. S. Yantis & Co., Inc.

Grimm & Co. to Admit Haley

Sidney W. Haley will be admitted to partnership in Grimm & Co., 44 Wall Street, New York City, members of the New York Stock Exchange. Mr. Haley was formerly Orlando, Fla., manager for A. M. Kidder & Co. and Cohu & Torrey.

Public Utility Securities

Columbia Gas

In this department last week we pointed out some of the cross-currents in recent electric utility earnings. The same condition prevails in the gas industry. Manufactured gas companies have had a hard struggle because of rising fuel costs but some of them are now reversing the trend of earnings, with rate increases bringing them "out of the red." Thus Brooklyn Union Gas, after reporting a deficit of 67¢ in the first quarter this year, netted 77¢ in the second quarter.

Sharp shifts in earnings are not confined to the manufactured gas companies, however, some of the companies which retail natural gas have also found the going difficult, particularly in the past six months. They were unable to get as much natural gas from pipe line distributors as they needed to take care of old and new customers, despite curtailments on industrial consumers, new house-heating business, etc. Hence, it was necessary to use standby manufactured gas plants, buy expensive propane, etc., with resulting disastrous effects on earnings. Thus Michigan Consolidated Gas for the 12 months ended March 31 reported share earnings for only 43¢ compared with 87¢ in the previous year, and the company has asked for a rate increase to restore earnings to a 6% return basis. Next winter the company may be able to supplement gas delivered by Panhandle Eastern Pipe Line with gas stored during the summer months in the Austin Field (Michigan), and in two or three years by gas delivered by the new pipe line being constructed by the parent company, American Light & Traction.

Columbia gas recently reported share earnings for the 12 months ended June 30 of $1.17 vs. $1.43 for the preceding 12 months. The decline in net income occurred despite an increase of 9% in gross revenues (revenues for the last quarter were down slightly, however, because of unseasonably warm weather).

President Stuart M. Crocker, addressing a group of utility analysts, stated: "Expenses were increased not only by high labor and material costs, but by the necessity of supplementing the system's available gas by large quantities of expensive, liquefied petroleum and manufactured gas. The unprecedented demand, the shortage of natural gas and the long periods of cold weather during the past winter necessitated the use, for the first time, of large quantities of manufactured gas and of liquefied petroleum gas, which are normally intended to be used only during a few very cold days of the winter season."

The company's reserves in the Appalachian (eastern) fields have for some time been inadequate to meet growing demands, and hence Columbia has signed contracts with pipelines tapping the huge gas reserves in the Texas and mid-continent fields (Tennessee Gas Transmission, Texas Eastern Transmission, Texas Gas Transmission and Panhandle Eastern Pipe Line). But the acute shortage of steel pipe is delaying scheduled construction program of the pipe line companies, and recent deliveries have been about 7% below scheduled amounts. By Dec. 1 the deficiency is estimated at 20% below the scheduled figure.

When pipe does become available and the supply of natural gas increases, it is expected that net earnings will in due course follow the upward trend indicated by the constantly increasing demand for gas. Should the anticipated increase in gross revenues fail to produce a satisfactory gain in net income, relief may be sought through increased gas service rates. President Crocker indicated that in his opinion the company would maintain total dividend payments for this year at the 1947 rate of 75¢ (15¢ quarterly and 15¢ year-end extra).

Columbia Gas is the outstanding company in its field, serving a population of 7,000,000 people in Ohio, Pennsylvania, New York, West Virginia, Virginia, Kentucky and Maryland. The average residential consumption per customer is 91 mcf compared with 76 for the entire natural gas industry; the average residential rate is 57¢ per mcf compared with 63¢ for the industry.

The company is fortunate in having large underground storage facilities. The gas industry has found that by storing large amounts of gas in underground caverns (old and depleted gas fields) during the summer when gas demands are lowest, these reserves can be drawn on to meet heavy winter demands. By 1950 Columbia expects to store an amount of gas about equal to its total sales in 1939, and about one-half the 1947 sales.

The company has a heavy construction program which may require additional financing over the next two or three years. Current requirements have been taken care of by an issue of $45 million debenture 3¼s sold last March. Eventually, perhaps, some additional common stock may have to be offered in order to keep the equity proportion of total capitalization at the 50% level, as required by the bond indenture.

Peter Morgan Offers Kentucky Oil Stock

An issue of 299,900 shares of capital stock of Kentucky Oil & Distributing Corp. was offered (as a speculation) Aug. 11 by Peter Morgan & Co. The stock is priced to the public at $1 per share.

Proceeds of the offering will be be used by the company principally for development work, repairs and additions to refinery, new equipment, payments on purchase price of certain properties and equipment, and working capital.

The company is engaged in the production, refining, and distribution of petroleum products, both crude and refined, and expects to engage in the marketing of motor accessories, household appliances, staples, agricultural tools and kindred items.

Panama Bonds Drawn For Redemption

The National City Bank of New York, as fiscal agent, is notifying holders of Republic of Panama 26-year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967 that $113,000 aggregate principal amount of the Bonds have been selected by lot for redemption on Sept. 15, 1948, at 102½% of the principal amount. Holders and owners of the drawn Bonds are to present them for payment at the head office of the fiscal agent 55 Wall Street, New York, N. Y. The fiscal agent also announces that on Aug. 4, 1948, a total of $5,000 of the same issue, previously called for redemption, had not been presented.

Railroad Securities

One of the best acting of the lower priced speculative rails for some time has been the St. Louis-San Francisco common stock. In part this has been attributable to a series of merger rumors. Some time ago there were active discussions looking toward merger or consolidation of this road with the Gulf, Mobile & Ohio. The negotiations broke down but there have recently been recurring unofficial reports that they have been reopened. Most analysts who have followed the situation carefully express serious doubts that any such combination is in prospect, at least for a long time to come.

A newer rumor is that the road will be merged with, or taken over by Atchison, Topeka & Santa Fe. This possibility has been even more seriously discussed by analysts since the Santa Fe was denied authority by the Interstate Commerce Commission to enter St. Louis directly. It is argued that this entry could be secured by merging with the St. Louis-San Francisco. The latter was one of the main interests objecting to Santa Fe's entry into St. Louis over a line to be acquired jointly by it and Chicago, Burlington & Quincy from Gulf, Mobile & Ohio. Regardless of the truth behind the rumors that have attracted recent speculative interest to the common stock of St. Louis-San Francisco, the shares are viewed by many analysts as having considerable appeal on their own.

The road was not so drastically reorganized as many of the other western bankruptcy properties. For instance, new fixed charges amount to roundly $3 million. St. Paul, with average gross revenues over the past 10 years more than double those of Frisco, has fixed charges of less than $4 million. Rock Island was allowed only $2.3 million of fixed charges in the ICC reorganization plan (they are considerably lower by now) although its average gross over the past 10 years has been more than 60% above that of Frisco. This fairly liberal new senior capitalization has militated against the generation of any great investment enthusiasm toward Frisco's senior obligations. This does not, however, detract from the speculative appeal of the common under present and prospective traffic and earnings conditions.

One of the most favorable aspects of the Frisco picture is the recent trend toward the use of diesel power. Up to the end of last year the road had no diesel freight locomotives, only 3 passenger diesels and 48 diesel switchers. This lack of diesel power was adversely reflected in the operating performance. The 1947 transportation ratio was 41.7% compared with 40.0% for the industry as a whole, 38.0% for Rock Island and 34.1% for Santa Fe with which the company's name has been linked in recent merger rumore. The first quarter of the current year revealed no improvement in the company's status in this respect. Its transportation ratio was 4.2 points above a year earlier compared with a rise of 1.8 points for Class I carriers as a group.

At the end of last year the company had on order twelve 6,000 h.p. and twelve 4,500 h.p. road locomotives and 37 diesel switchers. Deliveries of the road units started in volume in early June but even to date only nine have been put in service. It is notable that in June the transportation ratio was cut to 42.1% which was some two points below the year earlier figure. This June showing reduced the cumulative year-to-year rise in the transportation ratio to 2.3 points. While the ratio is still considerably above the Class I average the most recent trend is at least favorable. The rest of the road diesels are scheduled for delivery over the balance of the year. Thus, the operating performance should continue to improve.

Earnings for the first half of 1948 amounted to $0.86 a share. This is not, however, any indication of what may be done on an annual basis. The road is just now entering its seasonally best period when most of its earnings are normally accrued. Coincidence of the seasonal peak in traffic and the start of delivery of new road diesel power points to the likelihood of sharp increases in these earnings from here on. For the year as a whole estimates run between $4 and $5.50 a share. Such earnings should make possible the initiation of dividends toward the end of the year.

Economist Hits At Dollar Restrictions

Restriction of imports from dollar areas has been criticized by Vice-Chancellor of the Australian National University, Professor Douglas B. Copland. Professor Copland said the policy was hampering Australia's economic development. It produced the undesirable effect of building up high-cost industries at the expense of the export price level. Everything possible should be done to avoid a policy of restriction. At present Australia was drifting along, behind a high level of export prices. Professor Copland expressed the opinion that a young country like Australia should be able to incur the risk of a dollar loan, which Western Europe had been forced to adopt to save itself economically.

Dollar Earning Decline Expected

Federal Commerce Department officials estimate that Australia's dollar income for the present financial year will be $10,000,000 less than last year. They have reported that the export drive to North America was making considerable headway, but that the drop in wool sales to America had brought a wide gap that could not be closed immediately. Last season's wool exports to America were $30,000,000 less than the previous year. Wool experts said that the United States had ample supplies of wool, and was only replacing stocks used in normal production.

Business Man's Bookshelf

Cooperatives in the Petroleum Industry (in four parts)—Petroleum Industry Research Foundation, Inc., 122 East 42nd Street, New York 17, N. Y.—paper $3.

Graphic Bond Review, The—Charts on seven averages, 27 foreign bonds, 219 domestic bonds, and basic statistics for each—Graphic Economics, 60 E. 42nd Street, New York 17, N. Y.—paper—$4.

Jewelry Makers Optimistic on Sales Outlook

Returns of questionnaire indicate expectation of large sales despite higher prices.

Substantial Fall buying of jewelry with accelerated sales increases this winter, which should make the total 1948 billion dollar business equal and possibly exceed 1947, was forecast by leading exhibitors at the 43rd Annual Jewelry Trade Exposition, sponsored by the American National Retail Jewelers' Association, which opened at the Waldorf Astoria on Aug. 9.

Jewelry valued at approximately $10,000,000, including the largest collection of palladium and diamond jewelry ever assembled, valued at $200,000 retail, will be shown at the exposition which continues through Aug. 12.

Answering an advance questionnaire sent to exhibitors by one of the leading refiners of precious metals (Baker & Co., Inc.), 80 of the largest manufacturing jewelers displaying their newest creations at the show gave optimistic replies regarding the outlook.

Some manufacturers, however, estimate the over-all jewelry business for this year will show a decrease of from 2 to 5%, compared with 1947, when sales totaled $1,447,637,629.

Included among those surveyed were makers of fine diamond pieces such as necklaces that sell for $100,000 retail, watchmakers, ring manufacturers and producers of silver novelties that retail from $2.50 to $10. Those in the low and moderately priced fields were most optimistic. Typical view of the latter group was the assertion that the "current tendency toward cautious buying with inventories moderate will induce substantial buying for Fall and Winter." Excellent Christmas sales are anticipated.

Most enthusiastic over increased sales, new uses, public acceptance and economies inherent in employment of palladium in jewerly were 50 manufacturers whose newest creations in that precious platinum group metal were assembled by a refiner and exhibited in one booth at the show.

World Bank Makes Loan to Dutch Shipping Cos.

Amount is $12 million in 2½% mortgage notes, guaranteed by Dutch Government. $8.1 million resold with Bank's guarantee to U. S. commercial and savings banks.

The International Bank for Reconstruction and Development announced on Aug. 9 that it has loaned $12,000,000 to four leading Dutch shipping companies, for the purchase of six ships. The loans are in the form of 2½% one to 10-year serial mortgage notes guaranteed by the Kingdom of the Netherlands.

A group of 10 United States commercial and savings banks has purchased $8,100,000 of these notes, guaranteed as to principal and interest by the International Bank for Reconstruction and Development.

This is the first time the International Bank has used its guarantee powers and the first time it has made a mortgage loan. Under its Articles of Agreement, in addition to making direct loans, the Bank may guarantee or participate in loans and may sell, with its guarantee, securities held in its portfolio.

The loan agreements provide for the purchase of two ships each by the Rotterdam-Lloyd and the Nederland Line, and one ship each by the Holland-America Line and the United Netherlands Navigation Company.

The 10 participating banks have purchased from the International Bank all of the notes maturing in the first six years and part of the notes maturing in the seventh year. The remaining $3,900,000 of the notes will be retained in the International Bank's portfolio, at least for the present.

The banks which have purchased the $8,100,000 serial mortgage notes are:

Bank of America National Trust & Savings Association, San Francisco; Bankers Trust Company, New York; Buffalo Savings Bank, Buffalo; Central Hanover Bank & Trust Company, New York; The Chase National Bank of the City of New York; Dime Savings Bank of Brooklyn; First National Bank of New York; Guaranty Trust Company of New York; J. P. Morgan & Company Incorporated, New York; National City Bank of New York.

Reports Suit Against Dutch Government For Return of American Securities

Amsterdam paper "De Tijd" says suit is by owner who denies lawfulness of forced surrender of shares and bonds to the Netherlands Bank

On July 17, the Amsterdam newspaper "De Tijd," published the following editorial article in relation to the forced surrender of resident Hollanders of their holdings of American securities:

"At the time when the government ordered the public to surrender to the Netherlands Bank its property of American shares and bonds, we warned our readers that holders would do well by reserving unto themselves the right of claiming restitution of the securities they thus sold under compulsion to the Netherlands Bank, therefore, against their will.

"We are informed that an action has been brought against the State respectively the Netherlands Bank for the return to the plaintiff of the American shares and bonds he was forced to sell to the Netherlands Bank, alleging that the Foreign Exchange Decree of March, 1948, does not confer on the Netherlands Bank the jurisdiction to order private owners to offer and subsequently transfer the ownership of their property of shares and bonds to this Bank. The plaintiff is reported to have further alleged that apart from the aforegoing, considering that Netherlands certificates of American shares are not "foreign securities" within the meaning of Section 28 of the Royal Decree F 222, this section 28 of the Resolution, in any case, does not, nor does Section 46, sub-section 3 give to the Crown or to the Bank the jurisdiction to determine that residents should be under the obligation to offer these certificates to the Bank, or to transfer them in ownership.

"To our minds this appeal to the Judge for his decision as to the lawfulness of the Government's demanding surrender to the Netherlands Bank of foreign shares and bonds that belong to resident-owners is of particular interest. It is a step that has become absolutely necessary in the interest of the security warranted by the law. The Government's claiming American shares and bonds, as we already fully explained on a previous occasion, a.o. in an article by our legal editor, must be understood to be nothing less than a violation of the right of ownership.

"This is why we await the decision of the case with a lively interest. It is of inestimable value for the whole population; for the saving man and woman, as well as for the employer and employee that a binding judgment be given on the security which the law warrants in respect of ownership of movable properties.

"If the principle is accepted that in peacetime an Emergency Act cannot give jurisdiction to claim surrender of shares and bonds and such further securities, then the security which the law warrants in the matter of ownership of shares and bonds is recovered, that is unless the States General should consider it incumbent upon them to pass a bill providing for the jurisdiction to claim surrender of shares and bonds, but even so, it would be a questionable point if such an Act would have retrogressive force. Approaching the question on this footing it must be considered fortunate that several private parties have reserved unto themselves the right to claim restitution from the Bank of the shares and bonds or securities of a like nature that have been sold against their will.

"The action referred to in the above should therefore be regarded as a spontaneous protest against the encroachment on the private right which a measure of public right is asserted to effect. The action is not carried on against anybody in particular, because as already stated above, the point at issue merely is the establishment by juridical examination by the Dutch Judge whether or not under the present Netherlands administration of justice the surrender of shares and bonds can lawfully be claimed."

Peine to Manage Dept. For Tucker, Anthony

Chas. A. Peine will become manager of the municipal bond department of Tucker, Anthony & Co., 120 Broadway, New York City, members of the New York and Boston Stock Exchanges. In the past he was an officer of Schlater, Gardner & Co., Inc.

J. E. Bennett & Co. to Admit Two New Partners

CHICAGO, ILL. — James E. Bennett & Co., 141 West Jackson Boulevard, members of the New York Stock Exchange and other leading national exchanges, on Sept. 1 will admit Clarence M. Galvin and J. Frank Graham to partnership. Mr. Galvin has been with the firm for some years. Mr. Graham will make his headquarters at the firm's New York City office, 30 Broad Street.

William Maus Dies

William H. Maus of Philadelphia, a former member of the Philadelphia Stock Exchange, died at the home of his daughter in West Hartford, Conn., at the age of sixty-nine.

Garrow T. Geer, Jr., To Be Partner in Farr & Co.

Effective Aug. 12, Garrow T. Geer, Jr., member of the New York Stock Exchange, will become a partner in Farr & Co., 120 Wall Street, New York City, and the firm will again hold membership on the Exchange. Mr. Geer has been active as an individual stock broker.

Warns Savings & Loan Executives to Review Investment Program

Sigurd R. Wendin tells National Savings and Loan League Seminar interest rates are likely to rise, and urges shortening maturities of loans. Sees business demand for credit continuing at high levels.

Addressing the Executives Seminar of the National Savings and Loan League at Mercersburg Academy, Mercersburg, Pa., on Aug. 5, Sigurd R. Wendin, President of Heber-Fugin-Wendin, Inc., Detroit, urged savings and loan executives to take under consideration methods of meeting a condition of rising interest rates. According to Mr. Wendin:


Sigurd R. Wendin

"Government fiscal policy is being directed towards controls of credit with the idea that curbing of types of credits which might contribute to inflation would be helpful in controlling the price structure. However, certain actions are contradictory, much as for example the purchase of government bonds by the Federal Reserve which encourages inflation. The demand for credit also increases through such actions as the rearmament program and the European recovery program.

"Long- term money market factors indicate that we are at a relatively high level in practically all fields when compared with the past, and these high levels indicate the need for caution in any policy planning. While it was not indicated that we are at the immediate end of a high level of activity, nevertheless the review of past events as far back as 1914 creates a sobering influence.

"In the discussion on government bonds the question of pegging and of support brought out the fact that open market yields on all types of credit were rising but the pegging operations kept long-term 2½% government bonds at par or slightly better. Since one method of fighting inflation would be to allow interest rates to rise it is not inconceivable a change in Administration may involve a support program in contrast to a pegging program. Since the attractiveness of government bonds in relation to other types of interest producing assets is becoming relatively less, the Federal Reserve is having to buy more and more government bonds. Recognizing the fundamental forces causing changes in credit conditions in comparison with those prevailing in prewar years it behooves every savings and loan executive to review his investment program in the light of not only liquidity but also prospects for price stability.

"In talks with officials of insurance companies, banks, savings and loan associations and other financial institutions over the last several months, there has not been one who was not thinking in terms of higher rates on loans. Most of the thinking has been concerned with rates on loans and on bonds, but it would appear logical to expect that eventually the liabilities side will also be influenced. While increase in the interest paid item has not yet received nationwide momentum, nevertheless in some areas the rate has been increased. Since the credit supply is still ample, one would conclude that competitive pressures rather than demand-supply factors were largely responsible for the increase in the interest rate item. Savings and loan executives therefore should be forewarned and have under consideration methods of meeting such an eventuality even though an increase in the interest rate item is not currently recommended. Consideration might be given to such factors as shortening the maturity of the mortgage, having the mortgage note of one or two year maturity and increasing the borrowers' equity all with the thought in mind that if it becomes necessary to increase the interest rate item, then it will be possible to more quickly adjust the asset side of the operation on a high income basis.

"Too much curbing of the inflationary pressures could lead to some recession in business, but this does not appear likely because such action is not politically feasible or desirable in light of the coming presidential campaign. A recession could cause a decline in the demand for credit and might cause a change to deficit financing with a relative increase in the supply of credit and then in turn the pressures for rising interest rates would diminish.

"In case of war, of course, controls would all return, but these observations are made on the assumption that we will have peace even though the rearmament program will create some wartime effects. The continued demand for steel, automobiles, and other products of our industrial economy appear to be continuing at the highest levels in history and when superimposed on the rearmament program and the European recovery program it would appear reasonable to assume that the business demands for credit would continue at high levels.

"Efforts on the part of the monetary authorities to restrict credit, or in other words to reduce the effective supply, would have only minor if any effect, and it would appear that prospects favor higher rather than lower interest rates."

Warwick in Southwest For Group Securities

Paul R. Warwick, Jr., formerly located in Alabama, has moved to Texas in order to bring closer Group Securities, Inc. contact to investment dealers in the Lone Star State. Mr. Warwick will work as an associate of the resident Vice-President for the southern territory, Donald B. Brayshaw, who will also be active in the Texas territory.

Harris, Upham Co. Admitting

CHICAGO, ILL. — Gerald V. Hollins, Jr., will be admitted to partnership in Harris, Upham & Co., members of the New York Stock Exchange and other leading Exchanges. He has been associated with the Chicago office, 135 South La Salle Street.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

George T. Adee, partner in Mallory, Adee & Co., died on July 31.

E. Kirby Newburger, limited partner in Kohlmeyer, Newburger & Co., died on July 30.

Interest of the late Carroll Dunham, 3d, in Dunham & Fletcher, ceased July 31.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The common capital stock of the **First National Bank of Merrick, Long Island, N. Y.**, was increased on July 28 from $250,000 to $300,000 by the sale of $50,000 of new stock, it is learned from the Aug. 2 Bulletin issued by the Office of the Comptroller of the Currency.

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Willard B. Macintosh, President of the **Bellport National Bank of Bellport, L. I., N. Y.**, died on Aug. 6. Mr. Macintosh was 78 years of age. Advices to the Brooklyn "Eagle" of Aug. 7 stated that he had been a member of the bank's board of directors since 1924. The "Eagle" added that he became President when the institution was faced with serious financial difficulties and in 1933 directed its reorganization during the bank holiday ordered by President Roosevelt.

On Aug. 9 Carl H. Hoffman was elected President to succeed Mr. Macintosh. At the same time D. C. Demarest, heretofore Cashier, was elected Executive Vice-President and Cashier and Herman Chamberlain was named Vice-President.

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The absorption of the **Columbus Trust Company of Newark, N. J.**, by the **United States Trust Co., also of Newark,** occurred on June 26, it was noted in the July 31 weekly release of the Board of Governors of the Federal Reserve System, which also stated:

"In connection with the absorption the former main office of Columbus Trust Co., as well as the two branches formerly operated by Columbus Trust Co. will be operated by the United States Trust Co. of Newark."

The members of the board of directors of the Columbus Trust voted on July 24 to dissolve the institution. The taking over of the Columbus Trust followed the alleged defalcation of P. J. Pellechia, Jr., Vice-President and Counsel of the trust company, who recently resigned as Newark Police Judge. Stating that Federal and State officials acted on July 14 to assure the depositors of the Columbus Trust Co. against loss, special advices to the New York "Times" from Newark July 14 said in part:

"Cash and first-grade prime assets in an amount equal to the deposit liabilities assumed by the United States Trust Co. in the absorption of the Columbus Trust business will be transferred to United States Trust by the FDIC. The boards of directors of both banks have approved the transaction, FDIC officials said, and it is expected that the transaction will be completed over the weekend of July 24.

"In Washington, Maple T. Harl, Chairman of FDIC, said that depositors in the Columbus Trust are assured against loss because the U. S. Government would stand back of any.

"Every depositor of Columbus Trust Co. will be fully protected and they will otherwise benefit from uninterrupted banking service," Mr. Harl said. He added that it was a source of deep satisfaction to FDIC to enable Columbus Trust to work out the proposed transaction and thus avoid the hardships and delays of a receivership. All deposits will continue to be insured up to the legal limit of $5,000.

Assets retained by FDIC will be liquidated "in an orderly manner, with due regard to the credit conditions of the community," it was said.

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The Newark "News" of Aug. 4 stated in advices from Jersey City that the **Commercial Trust Co. of New Jersey** verified on that day that it has made an offer to buy the assets and business of **Bayonne Trust Co. of Bayonne, N. J.** The "News" account further said:

"The proposition, revealed by William J. Field, President of the $118,000,000 Jersey City institution, stipulates the stockholders will receive $450 a share. The purchase would give Commercial three branches in Bayonne in addition to the six in Jersey City. The plan will be put before a meeting of Bayonne Trust stockholders. Bayonne Trust was founded in 1902 and its latest statement July 1 listed $24,232,000 in resources.

"Mr. Field said it is the plan that all present officers and employees would be retained."

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The **Liberty National Bank in Guttenberg, N. J., has been placed** in voluntary **liquidation,** having been absorbed **by the Hudson County National Bank of Jersey City, N. J.,** effective July 30.

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The National Bank of Germantown & Trust Co. of Philadelphia has just started its 135th year, having opened its doors for business on Aug. 1, 1814, in a building on the same site as its present structure. The Philadelphia "Inquirer" indicating this in its Aug. 1 issue, said:

"On the opening day, citizens and businessmen of Germantown deposited total of $32,543 in the community's first bank. Today, as the third oldest bank in Philadelphia, National Bank of Germantown has resources of over $37,-000,000, deposits of more than $33,000,000, and approximately 20,000 customers. On May 1, 1815, nine months after opening, its directors declared the first dividend—one of $1.80 a share. Since that time the bank has maintained a continuous dividend record through continuous dividend record payment of 265 consecutive semi-annual dividends."

* * *

An additional office of **The Bank of Virginia, at Richmond,** the West Broad Street branch, was opened on Aug. 5. Regular banking hours were observed from 9:00 a.m. to 2:00 p.m., but the bank was at home to its friends on the opening day until five in the afternoon. Due to the inability to obtain occupancy of the entire property at one time, only a portion of the additional quarters has been opened at this time. It is expected that the entire structure will be completed early next year. Louis Reekes, Assistant Vice-President of the Richmond office of the bank, who has been with The Bank of Virginia for seven years, will be in charge of the West Broad Street office. He will be assisted by Frank T. Hyde. The bank will now have three Richmond offices: 8th and Main, 1620 Hull Street and 2902 West Broad—the Broad Street branch. The fourth office will be located at 4th and Grace Street to be occupied in early 1950.

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Oscar L. Cox, who was named as Liquidator of the **Union Trust Co. of Cleveland in 1933** by Jesse Jones, Chairman of the Reconstruction Finance Corporation, died on Aug. 8. The Cleveland "Plain Dealer" of Aug. 9 stated that:

"By way of tribute to Mr. Cox's stewardship in the liquidation, which saw $120,000,000 in assets liquidated at a net loss of less than 10% in the first five years, he was named President of the new bank (the Union Bank of Commerce) when it opened in 1938.

"At that time the defunct Union Trust Co. had paid off $84,000,000 in borrowings, had collected about $15,000,000 in double liability from stockholders and was understood to hold more than $30,000,000 in cash and marketable securities.

"Mr. Cox, who was 70 years of age when he died, retired from the Presidency of the Union Bank of Commerce in 1944."

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The board of directors of the **Old National Bank of Evansville, at Evansville, Ind.,** announced on July 28 the election of William A. Carson as President.

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Announcement that there would be no public offering of the 50,000-share issue of common stock of the **Detroit Bank of Detroit, Mich.,** was made on Aug. 4 by First of Michigan Corp. and Watling, Lerchen & Co., according to the Detroit "Free Press" of Aug. 5, which added:

"The bank's stockholders, in the allotted 20-day period ending Tuesday (Aug. 3), signed subscription warrants for 49,501 of the shares, it was explained. Underwriter and other outside warrant purchases also were included in the total."

Reference to the proposed increase in the capital of the bank appeared in our issue of July 22, page 321.

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The **Manufacturers National Bank of Detroit,** founded by the late Edsel B. Ford, observes its 15th anniversary on Aug. 10. Closely associated with Mr. Ford and serving with him as the first directors of the bank were Wesson Seyburn, John Ballantyne, Clifford B. Longley, Murray W. Sales, Charles H. Hodges, Alex Dow, George R. Fink and Henry H. Sanger. When the bank published its first statement of condition 15 years ago, it showed deposits of $36 million. Its statement in July of this year showed deposits of more than $370 million and total resources in excess of $390 million. Charles A. Kanter is President of the Manufacturers National, which operates offices in Detroit, Highland Park and Dearborn; it recently announced plans for the establishment of a new additional office in Dearborn.

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Announcement was made on Aug. 6 of the public offering of 34,500 shares of $25 par value common stock of **The Hibernia Bank of San Francisco** at a price of $58 a share. The San Francisco "Chronicle" in its account of the offering, said:

"The offering does not involve new financing but represents a partial distribution of the holdings of 16 major stockholders. Primary purpose of the offering, it has been indicated, is to establish a market value for estate valuation purposes.

"Blyth & Co. heads the underwriting syndicate, which includes Brush, Slocumb & Co., Elworthy & Co. and Schwabacher & Co."

From the same paper we quote:

"The stock is paying dividends at the rate of $2.50 a share per year, according to the prospectus, and earnings in 1947 approximated $6 a share. Capitalization of the bank consists of 280,000 shares of $25 par value common capital stock with a book value of approximately $74.50 a share.

"The Hibernia Bank is one of the oldest banking institutions in California and one of two savings banks in San Francisco. It was established in 1859 as a capital stock corporation and became a mutual savings bank in 1864. Last December it changed back to a capital stock corporation.

"As of June 30, the bank reported deposits of $151,029,983 and total resources of $172,001,982. Capital was reported at $7,000,000, surplus at $7,000,000, and undivided profits and reserves at $6,884,052."

The Securities Market in Mexico

(Continued from page 11)

return Latin America its international economic equilibrium, for they provide the necessary purchasing power to pay for its imports. An abundant flow of capital from the United States under the form of investments in Latin America, that would stay and be reinvested, would be the best form to compensate the excessive Latin American purchases in the United States.

"At the same time, in order that this form of investment would not come to be a cause for friction in the future, it is essential that the investors realize that capital, having a right to a just return, must not seek political power in foreign countries. As against this, foreign capital that does not seek special privileges must be exempt from any kind of discrimination." (Speech addressed on the 24th annual convention of the Foreign Commerce Council of the United States.)

Public Debt and National Income—It is interesting to compare the amount of the Mexican public debt with the National income so as to know the real importance of the debt and its significance to the Mexican economy.

In 1947 the total amount of the public debt represented approximately 13% of the National income. On the same year the public debt of the United States represented about 125% of the National income.

Public Debt and Government Revenue—A second very useful comparison to estimate the public debt is the one usually made between this debt and the budget of a country. In the case of Mexico the result of this comparison on the same year is approximately 105%, that is, the budget for one year is almost enough to pay the country's debts. Making the same comparison in United States the result would be near 695%.

Bank Investments in Government Securities and Their Resources—This is a comparison, as can be easily realized, serving to estimate the degree in which a country's public debt levies the banking system. In 1947, the investment made by private credit institutions in government securities represented 4% of their total resources. Referring to the United States, bank investment in public securities in the last years have exceeded 50% of their resources.

Commercial Banks' Investments in Public Securities and Volume of Their Deposits—Up to December, 1947, the investments amounted to 6% of the total deposits. As in the comparisons made before, during the last years, in the United States it has been over 50%.

The Banking System—Independently from the direct demand that the government exerts by selling securities, the credit institutions compete in the securities market in search for funds to finance public undertakings, industrial and commercial activities.

Besides the Central Bank, in the Mexican banking system there are several institutions in which the State is a participant. These institutions—nacionales de credito—are the following: (1) Nacional Financiera, S. A.; (2) Banco Nacional Hipotecario Urbano y de Obras Publicas, S. A.; (3) Banco Nacional de Comercio Exterior, S. A.; (4) Banco Nacional de Credito Ejidal, S. A.; (5) Banco Nacional de Credito Agricola, S. A.; (6) Banco Nacional de Fomento Cooperativo, S. A.; and (7) Banco del Pequeno Comercio del Districto Federal.

Referring to the amount of their capital stock, resources and their connection with the securities market the most important national credit institutions are Nacional Financiera, S. A., and Banco Nacional Hipotecario.

Nacional Financiera, S. A.

Nacional Financiera started to operate in June, 1934, based on a decree of December, 1933.

In 1940 an Organic Law was issued stating among other functions the following: (1) to act as intermediary between persons and/or domestic or foreign organizations willing to place capitals in Mexico; (2) to supervise and regulate the securities market and long-term credit system; (3) to promote investments in the organization, transformation and merging of enterprises; (4) to operate, in some cases, as a supporting institution for investment companies; (5) to act as a consulting agent for the Federal Government, local government, municipalities, and public agencies in the issuing, contracting and converting of public securities. As shown before, the main functions of Nacional Financiera are specially related to the securities market and the promotion and financement of enterprises.

In December, 1947, the Organic Law of Nacional Financiera was amended. Among other reforms the following are outstanding: (1) the corporation's capital was increased from 20 to 100 million pesos; (2) it was stated that Nacional Financiera would take charge of everything relating to the negotiation and handling of medium and long-term credits from foreign governments and private institutions, including the International Bank for Reconstruction and Development, when the granting of credits requires a guaranty by the Federal Government; (3) it was stated that the promotion and granting of credits by Nacional Financiera would befall on enterprises fundamental to the national economy.

Connections Between Nacional Financiera and the Securities Market—Excluding the direct investments of Nacional Financiera intended to comply with its functions, to foster its development by buying and distributing private and public securities, to stabilize the market, preventing manipulations, etc., Nacional Financiera maintains close contact with the market through issuing its own securities. Two different kinds of securities have been issued by Nacional Financiera, namely: Certificados de Participacion and Titulos Financieros.

Certificados de Participacion—(Certificates of Participation). They are securities that incorporate a right of co-ownership to the holders over a group of securities that constitute the common fund that is kept by Nacional Financiera as depositary. These securities were first issued in January, 1941. From then to now the volume of securities outstanding has increased notably. While in December, 1941, the public held certificates amounting to over seven million pesos, in 1943 the certificates held by the investors totaled approximately 142 million pesos; 217 million pesos at the close of 1945 and 250 million pesos at the end of 1947.

The structure of the common fund has undergone considerable changes: In December, 1941, the fund was formed 100% by government securities while in December, 1947, government securities represented 39.4% of the total and private securities 60.1%.

After issue "A" of certificates, some credits were included as part of the common fund, being granted principally to industrial establishments.

Nacional Financiera had issued to June 30, 1948, Certificates of Participation amounting to 346 million pesos. On the same date the certificates outstanding totaled 305,556,256 pesos It has been estimated that 40% of this amount is in hands of individual investors, 29% is held by the private credit system, 14% is an investment of industrial and commercial enterprises and the rest has been bought by other investors.

The fact that the Certificates of Participation have not quoted below their par value and the great stability of Nacional Financiera have permitted a growing acceptance by the investors towards these securities. Respecting the rate of interest paid to the holders of certificates, since issue "G" of June, 1943, they have maintained a rate of 6% annually, exempt from taxes.

The redemption terms have fluctuated between five and 10 years and since 1943 the maturity has been indefinite; various premiums for the investors have been established in case the issuing institution should withdraw the securities from the market.

In spite that the certificates are repurchased practically on demand the holders rarely collect before maturity. It is also common when the securities are due to exchange them for other certificates.

The Certificates of Participation of Nacional Financiera were originally conceived as a way of easing the placing of government securities; actually, they have come to be an efficient instrument to finance the industrial development. The funds collected by Nacional Financiera through its certificates have been the basis for organizing or expanding enterprises that operate in the steel, textile, cinematographic, canning, transportation and many other industrial fields.

Titulos Financieros—(Collateral bonds). In 1937 Nacional Financiera floated the first issue of "titulos financieros" in national currency in the total amount of 500,000 pesos with a 10-year maturity and 5% annual interest rate redeemable by yearly raffles. This issue was guaranteed 75% by public securities and 25% by mortgage bonds and other marketable securities.

In 1941 it placed a second issue of "titulos" their value being expressed in dollars. This was made with the object of enabling the insurance companies to buy securities on the basis of their reserves against policies in foreign currencies.

In the following years Nacional Financiera issued various series of "titulos financieros"—collateral bonds—in dollars bearing a 5% tax exempt interest rate per annum and being backed by marketable securities. The last issue of "titulos financieros" was July of 1946.

To June 30, 1948, the volume of "titulos financieros" issued by Nacional Financiera totaled 85 million pesos of which 40,400,000 pesos were outstanding. These securities have been widely accepted by North American investors and are payable in Mexico City or New York.

Banco Nacional Hipotecario

This institution was constituted in February, 1933, and is actually governed by an Organic Law issued in December, 1946.

The principal functions of the Banco Nacional Hipotecario may be concentrated as follows: (1) to promote and direct investments in public works and services of general interest; (2) to invest its own funds as stated in point No. 1.

Outstanding among its operations, because of its connection with the securities market, is the issuing of mortgage bonds on whose placing depend many of the activities of the bank.

The bonds are backed by the assets of the institution that cannot issue them with a maturity longer than 30 years. Though these securities are similar to the mortgage bonds issued by private institutions, they have the characteristic that may be backed by different kinds of loans and by public securities or bonds guaranteed by "sociedades financieras." This enlargement of the backing leads towards diversification and tends to prevent that the loans for public works be the only ones that guaranty the bonds.

In 1943 the first issues of mortgage bonds were made, series "A" and "B" of 5 million pesos each with a maturity of 15 and 20 years and interest rate of 6.25% and 6%, respectively.

During the first years in which the Banco Hipotecario operated, due to the limitations existing in the market at that time this institution was not able to absorb considerable savings. In 1939 series "C," "D" and "E" were issued maturing within 15, 10 and 5 years. After 1939 new issues were made with the exception of 1941.

The bonds of the Banco Hipotecario bear an interest of 6 and 8% depending on the length of the maturity and pay their services twice a year, excepting series "K" that does it once a year.

Respecting the maturity of these bonds only three series are of 20 and 15 years while the rest fluctuate between 5 and 10 years.

Private Credit Institutions

The private banking system in Mexico is formed by the following institutions: (1) Commercial banks; (2) savings banks; (3) "sociedades financieras" (investment companies); (4) mortgage banks; (5) capitalization banks; (6) trust companies. Besides these institutions there are various organisms that according to the law are considered auxiliary credit organizations. Such as: the stock exchanges, clearing houses, warehouses and credit unions.

Among the most important institutions because of their relation with the securities market through the issuing of securities are the "sociedades financieras" and mortgage banks.

The "sociedades financieras" are institutions that operate in various fields attending the promotion of enterprises, their financing, the distribution of securities and other related activities. These corporations are similar to the "Banques d'Affaires" of the French banking system and to the investment companies, investment trusts and trust companies of the United States.

The "sociedades financieras" obtain their funds mostly through the issuing of bonds (bonos generales y comerciales).

The concentration of funds through the "bonos generales" is closely connected with the fostering of production, while the issuing of "bonos comerciales" is principally related to consumption, for they tend to obtain funds to facilitate instalment sales. Here is, as can easily be noted, a close resemblance with the sales finance companies of the United States.

The "bonos generales" started to be issued in 1941 not having had so far a wide acceptance by individual investors, their principal market being found in the credit institutions rather than amongst individual investors.

The interest rate of these securities varies slightly from one issue to another; however, they have yielded an average of 7.3% and have been issued for periods fluctuating between seven and eight years. (The maturity limit according to the law is 15 years.)

As in the case of other securities the circulation of the "bonos generales" has shown a great development in the last years. At the end of 1941 their volume was slightly above one million pesos; one year later it reached nearly 24 million pesos; in December, 1943, their circulation totaled 76 million pesos; it rose to 117 millions in 1944, 181 in 1945, 241 in 1946 and a little above 346 million pesos at the close of 1947.

Savings absorbed through the "bonos generales" have served to develop industrial and commercial activities. Among the most important industries developed by the "Financieras" the sugar industry is to be mentioned.

Besides the "sociedades financieras" the mortgage banks are also in close contact with the securities market. According to the banking law now in effect, the most important functions of these institutions are the following: (1) to operate as mortgage banks, and (2) to issue mortgage bonds and to guaranty mortgage "cedulas" (a variety of mortgage bonds).

The mortgage bonds are securities backed by credits granted by the issuing corporation or by "Cedulas" and mortgage bonds issued by other institutions. The bonds have a maturity limit of 20 years and a preference over any other obligation against the mortgage banks. In practice, however, the average maturity under which these bonds have been issued fluctuates between 7½ and 8 years while the interest rate averages approximately 7.7% annually.

It is interesting to note that notwithstanding the recent introduction of mortgage bonds (after the monetary and banking reform of 1931-32) the market has rapidly absorbed them. While in 1942 the bonds outstanding totaled 526,000 pesos, at the end of 1944 their par value was slightly over 63 millions and in 1946 this amount totaled 125,000,000 pesos. In 1947 the amount outstanding was 116,000,000 pesos as a result of a downward trend of approximately 7% in comparison to the 1946 figures.

The mortgage bonds have not only become a generalized investment among credit institutions but have had a growing acceptance among individual investors.

The mortgage banks are also connected with the security market through the guaranty of "cedulas."

Differing from the mortgage bonds these securities have a specific backing and may be issued with a maximum maturity of 20 years. Since 1933, the year in which the "cedulas" started to be issued, their average maturity has been 10 years and the average interest rate around 7.2%.

The experience obtained during the last few years on the handling of mortgage "cedulas" has been extremely interesting. When these securities were introduced the investors did not know them and besides, economic conditions in the country had merely overcome the severest effects of depression. As the recovery advanced and the national income and savings increased it was possible to note a growing flow from institutional and individual investment towards the mortgage "cedulas."

A few figures will prove the above mentioned fact. At the end of 1938 the mortgage "cedulas" outstanding totaled in round figures 19,000,000 pesos, in 1940 the amount outstanding was 50 million pesos, 105 million in 1942, 111 million in 1944, 195 million in 1946 and 205 million pesos up to 1947.

The mortgage "cedulas" have fundamentally absorbed genuine savings, especially from individuals, although banking and insurance institutions have also purchased these securities.

Industry—We have briefly examined the terms under which the government and the banking system rely on the securities market to obtain funds. We will now examine the direct financing of industry. As we have already stated, the demand for funds from the banking system tends in many cases to fill the financial needs of industry. Even more, the demand of the state is made sometimes with the purpose of financing industrial activities. Nevertheless, industry has also direct access to the securities market through the issuance of stocks and bonds.

Industrial enterprises organized as corporations utilize shares to

raise their capital stock. However, not all corporations are, strictly speaking, financed in the securities market. Many of them though having legal possibilities of obtaining a public financement distribute their capital stock among a small number of individuals that control the enterprise. Notwithstanding, a growing number of industrial societies have in the last few years relied on the over-the-counter securities market and the stock exchange to raise their funds. Among the most important industrial branches that have taken advantage of these financial methods, steel, paper, cement, beer, flour, soap, textile and the electric industry, should be mentioned.

Another channel through which industry demands capital to carry on its expansion is found in the issuance of bonds.

It is estimated that industrial bonds outstanding total about 400 million pesos corresponding aproximately to ten hundred enterprises. These bonds have an average maturity of 10 years and an interest rate of 7.5%.

Besides the financing through the securities market, industrial concerns in Mexico can raise funds in the industrial credit mechanism and can also obtain circulating capital from the commercial banks.

A significant figure to broadly estimate the development of the industrial credit system in the country is found in the volume of credits granted by Nacional Financiera in 1947 that totaled about 900 million pesos, as against seven million in 1938.

The Supply of Capital

We will now examine the principal factors on the side of the supply of capital in the securities market. In foregoing pages, referring to this subject, we mentioned in the first place the commercial banks.

Commercial Banks — Although principally related to the money market commercial banks in Mexico have been a support to the growing securities market. In the first place these banks assist some of the brokers and dealers, supplying them with funds that increase the volume of transactions. Secondly, commercial banks participate in the distribution of public and private securities and finally they are institutional investors that dedicate part of their resources to the purchase of securities. Up to December 1947, for example, the investment of the commercial banks amounted approximately to 266 million pesos.

Savings Banks — Like in other countries, the savings banks in Mexico are part of the investment banking mechanism, therefore contributing to intensify the formation of capital. At the close of 1947 these banks' investments in securities amounted to 118 million pesos.

Capitalization Companies— These institutions are also a part of the investment banking mechanism. Essentially they amount to savings institutions and despite the fact of their recent introduction in the banking system, in a few years they have concentrated a considerable amount of savings.

As these institutions invest in securities they must be considered as organizations stimulating the development of the market. Up to December 1947 the capitalization companies had an investment in securities amounting to 80 million pesos.

Trust Companies — Trust companies are of importance to the market for two main reasons; in the first place, they purchase securities with their capital stock and reserve funds. In second place they concentrate, through fiduciary businesses, funds coming from individual savings or from those of enterprises that are in part invested in the securities market.

The first of the above mentioned investments, the one carried out on their own capital funds, totaled in December 1947, 18 million pesos. As to the second one, it reached over 100 million pesos.

Other Credit Institutions — Although we considered Nacional Financiera and the "sociedades financieras" on the side of the demand of capital, they must also be included in the group of securities investors. Nacional Financiera, for example, had up to December 1947 an investment in securities that amounted in round figures to 576 million pesos, of which 45.6% corresponded to public securities and 54.4% to private securities, especially industrial bonds. On the other hand the operations—buying and selling—that Nacional Financiera made with securities amounted to 6,150 million pesos in 1947.

The "sociedades financieras" had to December 1947 invested in securities slightly over 161 million pesos.

Finally, the Central Bank should not be omitted in pointing out the principal buyers in the market. The Banco de Mexico, at the same time that it has played a role of extraordinary importance in the consolidation of the public securities market, it has fostered, directly or indirectly, the development of the industrial securities market.

Insurance Companies — Insurance companies have become one of the most significant institutional investors. As insurance has developed as a saving practice amongst Mexicans the companies have been able to accumulate considerable reserves that have permitted the purchase of a growing amount of securities.

In 1938 their investment was 26 million pesos, in 1943 it amounted to 67 million pesos and to December 1947 it was over 133 million pesos. The technical reserves of these companies at the end of 1947 amounted approximately to 338 million pesos and their resources were over 460 million pesos.

Other Buyers of Securities—To complete our general sketch about the position of the investors in securities we must point out the following organizations: non-commercial associations, surety companies, charitable foundations and commercial enterprises that usually maintain part of their reserves invested in securities. It is also necessary to include the group of growing importance formed by individual investors, whose savings are principally invested in banking and industrial shares, certificates of participation of Nacional Financiera and mortgage bonds and "cedulas."

The Stock Exchange

Up to now we have been referring to the most outstanding aspects of the securities market and to the various institutions that, generally speaking, form the investment banking mechanism. These institutions usually operate in the over-the-counter securities market, although recently they have been increasingly interested in operating through the Stock Exchange of Mexico.

The fact that most transactions are carried out through what is called the over-the-counter market is not at all exceptional. What happens in Mexico occurs in many other countries, particularly in United States, where most operations are carried out outside the stock exchange (the amount of operations carried out outside the stock exchange in Mexico, in 1947, totaled more than 12,000 million pesos).

Among the most important reasons explaining the concentration of operations in the over-the-counter securities market we find the following: (1) The Mexican stock exchange has been very few years in existence; (2) Most of the securities outstanding in the market are issued by banking and by the government; that is, they are securities that are normally negotiated in the so-called over-the-counter; (3) Some securities come from enterprises with a very small capital stock; (4) finally many of the securities represent new investments and are not sufficiently "seasoned," being for that reason more adequate to circulate outside the stock exchange.

Having made the foregoing clarifications trying to show the position occupied by the stock exchange in the national securities market, we will examine its main characteristics.

The "Bolsa de Valores de Mexico"—the only one in the country—was established as a corporation in 1933. Although it is a private organization it is subject, as we will see later, to a certain degree of government surveyance. It is also considered as an auxiliary organization of the credit system, being regulated not only by its own statutes but also by certain precepts of the banking law.

As in the case of all corporations, the stock exchange's capital is divided into shares, whose payment is covered by the stockholders who are really the stock exchange brokers. Besides these members there are others called subscribers that contribute with an initial and monthly fee that is determined by the board of directors.

Mining securities have by tradition been the ones most actively operated with. But the importance of these operations has declined on account of the price fluctuations that silver has experienced recently in the world market. Actually most transactions refer to industrial stocks and mortgage bonds.

Trying to increase the volume of business in the securities market, the government has been interested in making the stock exchange a more active center in order to stimulate investments in securities and to attain a greater degree of "shiftability" and stability for the securities outstanding.

Regulation of the Securities Market

The securities market in Mexico is principally governed by the following legal regulations: (1) the banking law of 1941; (2) the law of negotiable instruments and credit transactions of 1932; (3) the Organic Laws of the "Banco de Mexico" and "Nacional Financiera"; (4) the regulations that affect the functioning of the National Securities Commission and the Stock Exchanges and (5) finally the rules approved by the Securities Commission.

National Securities Commission —The National Securities Commission is a Federal autonomous body created in 1946 according to a decree passed by Congress in February of this year. (Published in the Official Paper of April 16, 1946.)

The Securities Commission was established because of the necessity of having more proper instruments to prevent manipulations and frauds; to direct financial publicity in the benefit of the investing public, avoiding misunderstanding or ill-intentioned attitudes. Since the Commission was created it has tried to improve the methods of supervision on the securities market and to foster its development through increasing public confidence towards the securities in the market and the issuing institutions.

The National Securities Commission is formed by one representative of each of the following entities: Treasury Department, Ministry of the National Economy, Bank of Mexico, Nacional Financiera, National Banking Commission, Stock Exchange of Mexico and Mexican Bankers Associations.

The Commission has the following functions:

(1) To approve the public offering of Mexican securities in foreign countries.

(2) To determine the securities that the insurance companies may purchase with their reserves.

(3) To approve or veto, the registration of securities in a stock exchange.

(4) To give its opinion when requested by the National Banking Commission or Nacional Financiera on the admission of new members of the Stock Exchange, or to suggest to those institutions the exclusion of some members.

(5) To approve the public offering of securities not registered in the Stock Exchange.

(6) To approve the maximum and minimum interest rates for the issuance of mortgage bonds or "cedulas," "bonos generales," "bonos comerciales," and bonds issued with the guaranty of "sociedades financieras."

(7) To keep a national registry of approved securities.

(8) And other functions that may be stated in regulations enacted by the Executive Power.

In order to facilitate the National Securities Commission the realization of its functions, it has been established that the Commission may require any data and information that it may deem necessary; it can also order the inspection on accounting records, offices or agencies of persons and corporations that have issued, guaranteed or participated in any form in the issuance or sale of securities.

In January, 1947 special regulations concerning the public offering of securities not registered in the Stock Exchange became effective. This regulation states that the securities not registered in the Stock Exchange require the authorization of the National Securities Commission to be offered to the public. Securities issued or guaranteed by the government, credit institutions and insurance companies are exempt from regulation.

In order to publicly offer securities the issuing institutions must have a paid-in capital stock of at least 200,000 pesos. Other important chapters of these regulations refer to the penalties in cases of false information or data submitted to the Commission and to omissions of material facts. Finally, persons interested in operating professionally with securities—as dealers or brokers—have to meet the conditions required by the Commission, which are similar to the ones of the Stock Exchange for its members.

The supervision exerted by the National Securities Commission over those that professionally intervene in securities transactions is very important and reflects the conviction that the securities market needs the participation of responsible middle men who will not cause any disturbances but will contribute to expanding the public confidence towards the market.

During the short period of time in which the Commission has functioned, several important activities have been carried on. In the first place the Commission has already undertaken a legislative work whose usefulness will be of great help to the well functioning of the market. Secondly, it has advanced in its practical organization.

The Securities Commission has approved several rules about the requisites that must be filled by the enterprises whose securities are registered in stock exchanges so that these may be included in the national registry; to the requisites that the stock exchanges when applying to the Commission for approval of the registration of securities; to the requisites necessary for the approval of securities that can be bought by insurance companies; to the requirements that must be filled in order to make public offerings of securities not registered in the stock exchange; to the maximum and minimum interest rates of certain securities. The determination of maximum and minimum interest rates is intended to attain, within a reasonable margin, interest rates satisfactory to the investors as well as to the issuers.

In short, the Mexican legislation that regulates the securities market has sought to expand public confidence through the supervision of activities in which certain private interests may injure the interests of the community. The regulations of the securities market have covered the organization and operation of the Stock Exchange, the supervision of those, that under different form, take an active part in the market and the inspection and approval of "prospectuses," related to new issues.

Besides the legislative activities that the National Securities Commission has undertaken, many others have been accomplished, such as the cancellation of some securities registered in the Stock Exchange, the vetoing of other securities submitted for registration, the prevention of certain sales and some activities directed towards the formation of the National Securities Registry.

Summary

The general review of the securities market in Mexico expressed in the foregoing pages may be summarized in the following terms:

(1) The insufficient domestic financial resources, being one of the obstacles against industrialization in the country, has forced the government to utilize the most different expedients to accelerate the development of the capital market.

(2) The above statement is made evident by the government's policy towards its public debt, that has contributed to the national economic development rather than to impose a burden on the population.

Referring to its obligations the Mexican Government's attitude has been precise, trying to punctually comply with its obligations and to dedicate the funds obtained in the most productive manner.

(3) Mexico has realized the benefits that may be derived from foreign capital, maintaining in this respect a clear position consisting of offering to the foreign investors that adjust themselves to the national laws a just treatment and all the guarantees granted by the law.

(4) the role of the government in the development of the securities market, exerted sometimes, directly and sometimes through official agencies, has been decisive. This is made evident by the policy followed by Nacional Financiera not only in the issuing of its own securities but in the purchase and distribution of public and industrial securities.

(5) The events of the last few years, briefly described in foregoing pages, plainly illustrate the rapid and firm development of the securities market. The fact that industry has been increasingly interested in capital market methods of financing, and that savings are being directed toward security investment announces a new stage in the national economic development.

(6) Finally, the systematic regulation of the securities market and the efforts to increase the efficiency of the Stock Exchange, demonstrates the regard given in Mexico towards activities on which a healthy and prosperous development of the financial markets depend.

Trusts Continue Buying on Balance

(Continued from page 2)
folios of six companies, although four other funds took profits, three of these eliminating the stock from their holdings. Increased selectivity was to be noted among purchases and less familiar names appeared in the reports. Three companies made new commitments in Union Oil of California and two more bought Warren Petroleum. Anderson-Prichard was acquiring a following, two companies purchasing its common. The search for good and less well-known properties is evidenced by State Street Investment Corporation's investment of ½-million dollars in three Canadian companies—Anglo-Canadian Oil, Calgary and Edmonton Corp. and the Home Oil Co. Enthusiasm subsided somewhat on gas properties, although several scattered individual companies were added to portfolios. Pure Oil and Standard of Ohio were among the oils most heavily sold. Socony Vacuum was also liquidated.

Many investors will be heartened by the reawakened interest in the rails, and if the number of trusts making new commitments be any portent, this should be more than a temporary revival of purchasing. Nine trusts bought Southern Pacific, and of these eight were completely new purchases. Five funds made original commitments in Pennsylvania Railroad for a total of 55,100 shares and five more bought Great Northern preferred. Northern Pacific also found favor with four managements, while the same number added the equities of Atlantic Coast Line. Although two trusts made new purchases of Atchison, two more eliminated this road from their portfolios. A like number of companies purchased 12,100 shares of Canadian Pacific. The old one-time favorite, Chesapeake and Ohio, was eliminated from the portfolios of seven companies and one additional fund lightened its holdings. Other roads to be sold were Louisville and Nashville by five trusts and Southern by four.

Continuing a trend in evidence during the preceding quarter, the two large electrical equipment companies were in marked favor. Eight managements purchased a total of 54,300 shares of General Electric. Two of these were new commitments. Westinghouse was almost equally as popular, seven funds adding its stock to their portfolios. Square "D" found favor with three funds. The only radio specialty company to have a marked preference was Zenith, but only two managements made new commitments.

General Motors was easily the favorite in the automotive group, seven trusts purchasing a total of 23,700 shares. In contrast to this, Chrysler was disposed of by five managements, but only 6,100 shares were liquidated. Studebaker was better liked, three trusts making purchases, two of which were new commitments. Among the parts manufacturers, Borg Warner topped the list and four managements purchased a total of 6,225 shares. Thompson Products also found favor with two companies and Eaton Manufacturing with three others. Electric Auto-Lite was eliminated from two portfolios and lightened in two others. Houdaille-Hershey was also in disfavor.

Although interest was still indicated in the aviation stocks, there was not the general allover enthusiasm which was displayed in the first three months of the year. Among the manufacturers, North American was easily the favorite, five trusts making fresh commitments of 71,100 shares. This leading manufacturer has one of the largest backlogs in the industry. Four managements also purchased Douglas, which was also one of the companies in pronounced favor during the first quarter. Lockheed was also liked, three companies adding it to their holdings. Both Boeing and Sperry were in disfavor, five trusts selling stock of the latter company. Opinion was fairly well divided on the transport companies. Three funds bought United Airlines while three more sold. The same number of trusts made purchases and sales of Eastern. No purchases were made of Curtiss-Wright, which has been a market leader on its spectacular dividend announcement.

There was scattered light buying in the chemical group. Three companies purchased a total of 15,900 shares of Commercial Solvents. Five funds sold some of the new split stock of Union Carbide, but three others also added to their holdings. Hercules Powder and Newport Industries were in slight disfavor, a few managements lightening holdings in each company. As in the previous quarter, there was almost a division of opinion on both Dow and Dupont. Three trusts purchased a total of 22,200 shares of Dow while two others sold 16,400. Dupont was bought by four funds while another three disposed of this chemical. Purchases among the chemicals totaled 40 transactions while sales amounted to 30. This is to be contrasted with the previous quarter when these stocks were one of the few groups in marked disfavor.

Insurance stocks did not get the attention from managements which was shown in the earlier part of the year but interest was still apparent. Three trusts purchased a total of 10,300 shares of American Insurance of Newark. Scattered individual commitments were also made in American Reinsurance, Fireman's Insurance of Newark, Great American Insurance, Northwestern National Life (Minnesota), Springfield Fire and Marine and Standard Accident. Aetna Insurance was eliminated from two portfolios.

Buyers favored the two major finance companies. Five trusts bought a total of 20,600 shares of Commercial Credit, two of these being new additions to portfolios. C. I. T. Financial was bought by three managements, shares purchased totaling 6,000. Only preference among the commercial banking institutions was shown for the First National of Boston, two companies adding a total of 3,800 shares to holdings.

Additions were made to stock already held in Continental Can by four investment companies; 12,300 shares were purchased. American Can, however, was liked by only two trusts which increased their holdings by 2,000 shares. Crown Cork and Seal was sold by four funds while there was a split in opinion on Owens Illinois Glass.

No uniformity was apparent in appraisal of the shares of machinery and industrial equipment companies. Three companies made purchases of Allis Chalmers and two bought Worthington Pump, one adding to holdings of the new split issue of the latter company. A newcomer, which has not appeared in portfolios previously, is Halliburton Oil Well Cementing Co. It is interesting to note which managements make additions to their portfolios of such less well-known, but prosperous companies. New commitments of 1,000 shares each were made by the two Axe-Houghton Funds and the Wisconsin Investment Co. Four trusts made sales of American Machine and Foundry and three sold Joy Manufacturing.

Two office equipment companies found particular favor with the trust managements. Three original purchases and three additions to blocks already held were made in the shares of Na-

Balance Between Cash and Investments of 54 Investment Companies

End of Quarterly Periods March and June, 1948

	Net Cash & Gov'ts Thous. of Dollars —End of— March	June	Net Cash & Gov'ts Per Cent —End of— March	June	Invest. Bonds & Preferred Stocks Per Cent* —End of— March	June	Com. Stks. Plus Lower Grade Bonds & Pfds. Per Cent —End of— March	June
Open-End Balanced Funds:								
American Business Shares	¶	7,029	9.4	20.3	20.2	16.6	70.4	63.1
Axe-Houghton Fund	577	570	7.3	6.4	3.2	3.4	89.5	90.2
Axe-Houghton "B"	131	194	10.0	11.1	14.2	13.4	75.8	75.5
Commonwealth Investment	¶	499	11.6	10.0	23.0	20.9	65.4	69.1
Eaton & Howard Balanced	4,306	4,136	13.0	11.2	21.0	21.6	66.0	67.2
Fully Administered Shares	1,305	963	24.6	21.0	8.0	8.1	67.4	70.9
General Investors Trust	269	211	13.7	10.3	12.0	11.4	74.3	78.3
Johnston Mutual Fund	50	65	18.7	19.0	13.8	16.6	62.5	64.6
National Securities—Income	487	501	4.3	4.1	17.2	13.7	78.5	82.2
Nation-Wide Securities	897	1,471	8.3	12.7	30.9	32.3	60.8	55.0
Nesbett Fund	32	79	8.3	18.6	18.0	18.5	73.7	62.9
George Putnam Fund	5,661	6,228	23.5	23.2	11.7	10.5	64.8	66.3
Russell Berg Fund	614	360	47.0	25.5	15.6	12.9	37.4	61.6
Scudder Stevens & Clark	†	3,520	†	14.0	†	21.1	†	64.9
Wellington Fund	5,051	7,791	9.7	13.5	34.0	33.3	56.3	53.2
Whitehall Fund	32	18	7.3	3.9	38.2	41.6	54.5	54.5
Wisconsin Investment Co.	1,111	589	53.9	31.3	10.1	5.0	36.0	63.7
Open-End Stock Funds:								
Affiliated Fund	¶	1,379	2.5	1.9	None	None	97.5	98.1
Bowling Green Fund	85	67	15.3	10.7	None	None	84.7	89.3
i Broad Street Investing	978	419	5.6	2.3	None	None	94.4	97.7
Bullock Fund	791	507	13.5	7.8	1.0	None	85.5	92.2
Dividend Shares	8,082	6,918	13.8	10.8	0.6	0.3	85.6	88.9
Eaton & Howard Stock	85	135	4.6	6.5	6.1	5.7	89.3	87.8
Fidelity Fund	2,308	784	14.1	4.1	None	None	85.9	95.9
First Mutual Trust Fund	125	81	3.5	2.1	8.1	10.6	88.4	87.3
Fundamental Investors	1,563	1,688	5.5	5.0	None	None	94.5	95.0
General Capital Corp.	604	614	5.8	5.5	1.8	1.7	92.4	92.8
Incorporators Investors	3,355	2,781	5.0	3.7	None	None	95.0	96.3
Institutional—Hare's	89	82	3.9	3.2	None	None	96.1	96.8
Investment Co. of America	776	1,350	14.2	22.7	None	None	85.8	77.3
Investors Management Fund	362	517	3.8	4.9	0.4	None	95.8	95.1
Knickerbocker Fund	112	737	1.4	9.2	None	None	98.6	90.8
Loomis-Sayles Mutual Fund	694	1,064	16.0	21.0	7.5	4.0	76.5	75.0
Loomis-Sayles Second Fund	1,576	1,755	18.0	20.0	8.0	4.0	74.0	76.0
Massachusetts Investors Trust	9,458	7,437	4.7	3.3	None	None	95.3	96.7
Mutual Investment Fund	17	23	2.5	3.2	4.3	4.1	93.2	92.7
National Investors	978	419	5.6	2.3	None	None	94.4	97.7
New England Fund	716	513	25.3	17.1	5.6	5.5	69.1	77.4
Republic Investors	148	84	14.5	7.3	4.1	None	81.4	92.7
Selected American Shares	3,335	1,844	21.7	11.0	0.1	None	78.2	89.0
Sovereign Investors	179	46	35.5	9.0	7.6	5.0	56.9	86.0
State Street Investment Corp.	12,464	11,761	19.4	16.4	None	None	80.6	83.6
Wall Street Investing Corp.	203	239	19.9	21.5	None	None	80.1	78.5
Closed-End Companies:								
Blue Ridge Corp.	4,863	5,727	16.3	17.6	3.3	3.1	80.4	79.3
Capital Administration	506	630	‡8.4	‡10.5	6.8	7.6	84.8	81.9
General American Investors	5,446	8,513	15.0	21.4	0.4	0.4	84.6	78.2
General Public Service	390	332	8.5	6.7	None	None	91.5	93.3
General Shareholders	1,081	1,396	‡6.1	‡8.0	7.7	9.8	86.2	82.2
Lehman Corporation	20,136	14,739	21.3	15.0	2.7	2.9	76.0	82.1
National Bond & Share	2,223	1,684	‡22.7	‡16.2	6.6	5.6	70.7	78.2
Selected Industries	1,349	2,009	‡4.2	‡7.3	9.2	10.9	86.6	81.8
Tri-Continental Corp.	1,634	2,419	‡4.7	‡7.0	6.6	8.9	88.7	84.1
§U. S. & Foreign Securities	1,176	1,568	3.5	4.2	None	None	96.5	95.8
U. S. & International Securities	2,751	2,548	7.6	6.3	None	None	92.4	93.7

*Investment bonds and preferred stocks: Moody's Aaa through Ba for bonds; Fitch's AAA through BB and approximate equivalents for preferreds. †No interim reports issued to stockholders on this date. ‡Percent gross cash and governments as reported by company. §Portfolio exclusive of securities in subsidiary or associated companies. ¶Dollar amount not reported on this date. i March quarter figures revised.

tional Cash Register. 14,300 shares of Burroughs Adding Machine were also bought by three funds. Five transactions in Addressograph were split, two on the buy and three on the sell side, although value of the latter was much greater.

International Paper was liked by six trusts, but only one of these made a new commitment in the stock of the paper manufacturer. It should also be noted in particular that there was a revived interest in shares of Paramount. Eight investment companies purchased a total of 41,450 shares, and three of these blocks were new additions to portfolios. During the period four other trusts sold 29,900 shares, two being complete eliminations of holdings.

Merchandise Issues Liked

Shares of merchandising companies were well liked but preference was for the most part scattered over a wide list of different issues. There were 28 individual companies traded as compared with 17 in the previous quarter. Favorite issue was Federated Department Stores, four trusts making new commitments and one more making an addition to portfolio holdings. Grand Union was bought by four managements while Butler Brothers and McCrory Stores were each added to the holdings of two companies. Buyers slightly favored both Ward and Sears. Only marked liquidation was in the shares of Allied Stores, three funds eliminating the issue and two others lightening portfolio holdings.

United States Steel was a favorite among its group and, in spite of the unsettlement caused by the basing point decision, buyers also showed a disposition to pick up securities of other companies in the industry. Sharon Steel gained in favor as two trusts made new commitments and two others increased holdings. Four managements also purchased Youngstown Sheet and Tube. Bethlehem Steel was the only company which found particular disfavor, three funds selling 10,700 shares.

Some concentrated buying was in evidence in a few individual textile companies. Four funds purchased American Viscose and three others bought shares of Industrial Rayon. Colonial Mills was a new issue to appear for the first time in several portfolios. Two management groups and one new fund sponsored by investment counsel purchased a total of 24,150 shares. Buyers were Fundamental Investors and Investors Management Fund, U. S. and Foreign Securities and U. S. and International Securities, and the Johnston Mutual Fund.

American Tobacco was sold rather extensively as during the preceding quarterly period. Six trusts eliminated it from their portfolios and two others lightened their holdings. Pepsi Cola also was in marked disfavor, six managements disposing of a total of 83,700 shares. Other beverage stocks to be sold were Canada Dry and Nehi.

Only indication of group selling, as noted previously, was in the building shares but this was in large part scattered over many individual issues. However, Minneapolis-Honeywell was sold by six managements, three completely eliminating the stock from their portfolios. Five trusts sold 16,300 shares of Johns-Manville. Purchases were concentrated in shares of United States Gypsum and National Gypsum, National Lead, Celotex and Sherwin-Williams.

Changes in Common Stock Holdings of 41 Investment Management Groups

(March 31-June 30, 1948)

Transactions in which buyers exceed sellers—or sellers exceed buyers—by two or more management groups. Issues more heavily sold are in italics. Numerals in parentheses indicate number of managements making entirely new purchases of an issue, or completely eliminating the stock from their portfolios.

—Bought—			—Sold—	
No. of Trusts	No. of Shares		No. of Shares	No. of Trusts
		Agricultural Equipment:		
3	*11,000*	*Deere and Co.*	*25,500*	*5(2)*
		Auto and Auto Parts:		
4	6,225	Borg Warner	200	1
2(1)	700	Eaton Manufacturing	None	None
7(2)	23,700	General Motors	5,100	4
3(2)	8,800	Studebaker Corp.	1,000	1(1)
2(2)	7,200	Thompson Products	None	None
2	3,900	Timken Roller Bearing	None	None
3	*13,000*	*Chrysler Corp.*	*6,100*	*5(1)*
2(1)	*3,700*	*Electric Auto-Lite*	*7,000*	*4(2)*
None	*None*	*Houdaille-Hershey*	*2,300*	*2(2)*
		Aviation:		
4(1)	8,300	Douglas Aircraft	None	None
3(1)	1,600	Lockheed Aircraft	500	1(1)
5(5)	71,100	North American Aviation	300	1
1(1)	*1,000*	*Boeing Airplane*	*4,000*	*3(2)*
None	*None*	*Sperry Corp.*	*12,900*	*5(1)*
		Beverages:		
None	*None*	*Canada Dry Ginger Ale*	*10,900*	*4(1)*
None	*None*	*Nehi Corp.*	*900*	*2*
None	*None*	*Pepsi Cola*	*83,700*	*6(3)*
		Building Construction and Equipment:		
3(1)	1,000	Celotex Corp.	None	None
2(2)	1,900	Glidden Co.	None	None
4(2)	2,500	Masonite Corp.	1,400	2(1)
4(2)	46,750	National Gypsum	None	None
4(1)	10,400	National Lead	2,500	2(1)
3	1,200	Sherwin-Williams	300	1
5(3)	6,300	United States Gypsum	5,200	3(1)
2	2,490	Weyerhaeuser Timber	None	None
None	*None*	*American Stove*	*3,500*	*2(2)*
1	*3,900*	*Armstrong Cork*	*3,800*	*3*
None	*None*	*Crane Co.*	*600*	*2*
2(1)	*20,000*	*Johns-Manville*	*16,300*	*5(2)*
None	*None*	*Lone Star Cement*	*500*	*2(1)*
2	*1,200*	*Minneapolis-Honeywell*	*11,200*	*6(3)*
None	*None*	*Alex. Smith & Sons*	*5,500*	*2*
None	*None*	*Trane Co.*	*2,200*	*2(1)*
None	*None*	*U. S. Pipe & Foundry*	*1,800*	*2(1)*
None	*None*	*United States Plywood*	*12,200*	*3(2)*
None	*None*	*Yale & Towne*	*4,400*	*2(1)*
		Chemicals:		
2(1)	3,100	Texas Gulf Sulphur	None	None
3	15,900	Commercial Solvents	None	None
1	*2,500*	*Hercules Powder*	*8,000*	*3*
None	*None*	*Newport Industries*	*6,200*	*2(1)*
3	*14,350*	*Union Carbide (new)*	*8,700*	*5(1)*
		Containers and Glass:		
2	2,000	American Can	None	None
4	12,300	Continental Can	500	2(1)
2	*3,700*	*Crown Cork & Seal*	*2,000*	*4(1)*
		Drug Products:		
3	15,300	American Home Products	None	None
2	1,900	Sharp & Dohme	None	None
		Electrical Equipment:		
8(2)	54,300	General Electric	2,300	3
3(1)	5,000	Square "D" Co.	None	None
7	15,920	Westinghouse Electric	5,400	2
2(2)	1,700	Zenith Radio	None	None
		Financial, Banking and Insurance:		
3(1)	10,300	American Insurance (Newark)	None	None
3(1)	6,000	C. I. T. Financial Corp.	500	1
5(2)	20,600	Commercial Credit	1,700	3
2	3,800	First Nat. Bank (Boston)	None	None
None	*None*	*Aetna Insurance Co. (Conn.)*	*2,200*	*2(2)*
		Food Products:		
2(1)	13,500	General Foods	None	None
2	3,600	National Dairy Products	None	None
1	*7,000*	*United Fruit*	*17,200*	*3*
		Machinery and Industrial Equipment:		
3(1)	12,800	Allis Chalmers	1,100	1(1)
2(2)	3,000	Halliburton Oil Well Cementing Company	None	None
2(1)	400	Sundstrand Machine Tool	None	None
2(1)	1,300	Worthington Pump (new)	None	None
2(1)	*600*	*American Machine & Foundry*	*21,100*	*4(2)*
1	*1,500*	*Joy Manufacturing Co.*	*4,800*	*3*
None	*None*	*Wayne Pump*	*2,700*	*2(1)*
		Metals and Mining:		
5(2)	10,350	American Smelting & Refining	100	1
3(2)	2,800	Eagle Picher Co.	None	None
12(2)	46,700	Kennecott Copper	5,900	4(1)
6(4)	9,500	St. Joseph Lead	1,000	3(2)
4(3)	12,900	U. S. Smelt., Refin. & Mining	1,300	1
None	*None*	*Hudson Bay Mining & Smelting*	*1,800*	*2(2)*
None	*None*	*McIntyre Porcupine*	*1,600*	*2(1)*
		Office Equipment:		
3(2)	14,300	Burroughs Adding Machine	4,600	1
6(3)	23,000	National Cash Register	12,800	2
		Paper and Printing:		
2(1)	1,400	Crown Zellerbach	None	None
6(1)	10,900	International Paper	1,200	1
1	*4,000*	*Union Bag & Paper*	*5,400*	*4(1)*
		Petroleum and Natural Gas:		
3(1)	7,600	Amerada	None	None
2(2)	2,100	Anderson-Prichard Oil Corp.	None	None
6(1)	20,550	Continental Oil	2,800	4(3)
10(3)	8,225	Gulf Oil	6,200	3
2(2)	25,400	Houston Oil of Texas, v.t.c.	None	None
7(1)	13,500	Phillips Petroleum	6,300	3
3	4,612	Shamrock Oil & Gas	12,900	1(1)
3(1)	10,000	Shell Union Oil	None	None
18	7,512½	Standard Oil of New Jersey[1]	5,730	4(1)
3(3)	21,250	Union Oil of California	None	None
None	*None*	*Barnsdall Oil Co.*	*1,600*	*2*
None	*None*	*Mid-Continent Petroleum*	*800*	*2(1)*
1	*100*	*Pure Oil*	*32,400*	*6(4)*
1	*11,000*	*Socony Vacuum*	*9,600*	*3(1)*
3(2)	*18,300*	*Standard Oil of Ohio*	*26,200*	*5(1)*
None	*None*	*Sunray Oil*	*8,000*	*2(2)*
None	*None*	*Texas Pacific Coal & Oil*	*2,900*	*2*
		Public Utilities:		
2	44,000	Commonwealth & Southern	None	None
3(1)	4,200	Electric Bond & Share	None	None
5(5)	23,900	Electric Power & Light	None	None
2	19,000	Illinois Power Co.	None	None
2	1,375	Indiana Gas & Water[2]	None	None
2	10,300	Indianapolis Power & Light	None	None
2(2)	10,000	North American Light & Power	None	None
2(1)	8,000	Public Service of Indiana	None	None
2	1,600	Western Union Telegraph "A"	None	None
15(7)	41,276	Wisconsin Electric Power[3]	4,827	1
None	*None*	*Central Ill. Public Service*	*117,850*	*4(2)*
None	*None*	*El Paso Electric Co.*	*1,100*	*2(1)*
None	*None*	*International Tel. & Tel.*	*21,000*	*3(1)*
None	*None*	*Middle West Corp.*	*25,100*	*2(2)*
5(1)	*24,900*	*Potomac Electric Power*	*10,727*	*7(6)*
None	*None*	*Tennessee Gas Transmission*	*9,000*	*2*
2	*1,800*	*Virginia Electric Power*	*11,675*	*4(2)*
		Radio and Amusement:		
8(3)	41,450	Paramount Pictures	29,900	4(2)
None	*None*	*Brunswick-Balke-Collender*	*1,700*	*2*
1(1)	*300*	*Columbia Broadcasting "A"*	*9,200*	*3*
		Railroads:		
4(2)	5,800	Atlantic Coast Line	200	1
2(2)	12,100	Canadian Pacific Ry.	None	None
2(1)	2,300	Chicago, R. I. & Pacific[4]	None	None
5(2)	23,900	Great Northern pfd.	3,500	2(1)
4(3)	5,800	Northern Pacific	None	None
5(5)	55,100	Pennsylvania RR.	5,000	1(1)
9(8)	8,300	Southern Pacific	1,500	2(1)
2	*6,300*	*Chesapeake & Ohio*	*11,400*	*8(7)*
1	*3,500*	*Louisville & Nashville*	*17,100*	*5(2)*
None	*None*	*N. Y. Chi. & St. Louis*	*2,937½*	*2(1)*
2(1)	*1,600*	*Southern Ry.*	*5,600*	*4(1)*
		Railroad Equipment:		
6(3)	34,900	Superheater	None	None
3	1,030	Westinghouse Air Brake	None	None
1	*1,800*	*Pullman*	*16,500*	*4(1)*
		Retail Trade:		
2(1)	1,300	Butler Brothers	None	None
5(4)	14,200	Federated Dept. Stores	None	None
4(2)	7,800	Grand Union Co.	None	None
2	700	Kennedy's	None	None
2	4,600	McCrory Stores	None	None
5(2)	13,100	Montgomery Ward	4,800	3(2)
4(1)	1,140	Sears Roebuck	4,200	2(1)
3(2)	2,700	Western Auto Supply	3,000	1(1)
3(2)	*4,000*	*Allied Stores*	*16,700*	*5(3)*
		Rubber and Tires:		
6(1)	11,200	Goodrich	12,700	4(1)
None	*None*	*Goodyear*	*15,900*	*4(2)*
		Steels:		
2(1)	1,700	General Refractories	None	None
4(2)	6,900	Sharon Steel Corp.	None	None
7(3)	15,300	United States Steel	1,100	2
2	3,400	Wheeling Steel	None	None
4(1)	9,100	Youngstown Sht. & Tube	2,500	2(1)
1	*5,000*	*Bethlehem Steel*	*10,700*	*3(1)*
		Textiles:		
4(2)	8,400	American Viscose	2,500	1
3(3)	24,150	Colonial Mills	None	None
3(3)	4,900	Industrial Rayon	None	None
1	*6,100*	*Celanese Corp. of America*	*27,100*	*6(1)*
		Tobaccos:		
3	*4,500*	*American Tobacco*	*12,900*	*8(6)*
2(2)	*6,000*	*Reynolds Tobacco "B"*	*3,700*	*4(1)*
		Miscellaneous:		
3(1)	20,500	Gillette Safety Razor	None	None
None	*None*	*American Bank Note*	*4,500*	*2(1)*

[1] Includes in great part 2½% stock dividend in company's own stock.

[2] Received as dividend on Public Service of Indiana.

[3] Received as partial liquidating dividend from North American Co.

[4] Includes stock received in exchange for other securities.

NOTE—This survey covers 58 trusts but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the several trusts sponsored by Calvin Bullock are considered as having the weight of one manager. American European, American General, First York Corp. and Overseas Securities are included in addition to companies listed in companion tables.

What's Ahead for Banking and Business?

(Continued from first page)

not tell you that I was greatly disappointed that the problem of learning how and formulating plans to cope with another great depression are not items of major interest to our law makers at Washington.

The reason for this, I think, is clear. It is that developing fine plans for averting what might be a very serious depression in 1952 has very little to do with the foremost business of a politician, which today is the job of getting reelected in 1948. Because of that immediate task, he tends to be interested only in stopping too much inflation between now and November 7 of this year.

So I have been revolving in the last year in my mind just who should be responsible for developing a widespread national interest in the problem of learning how to keep in our great country high productive employment and averting depressions. I hope you will be interested to know that I have recently come to the conclusion that the primary task, or critical task, for success must be done by bankers for reasons that later in this paper I shall, I hope, have made abudantly clear.

But first let us take a backward glance, as I used to do when hunting quail in this state, to know from where I had come, and then let us take a good glance as to where we are, economically speaking, right now, and let us attempt here this evening to probe into what is likely to come ahead and what we should do about it.

First, I would like to ask you to look with me at the economic world of our country after World War I. At the end of that war one of the most strikingly noticeable things was the way succeeding waves of business activity were created and moved along, flowing a high tide for a good many years after the war; in fact, until 1929. What were these waves of investment? Perhaps a review of them will help us in the more difficult process of disentangling economic developments as they are occurring today to permit us to make a diagnosis and suggestions for improved stability in our economic health in the future.

Five Waves of Investment

After World War I there were five distinct waves of investment. These gave us rather abiding high level activity with full employment. In fact, a Republican President of that time interpreted the seas on which he was trying to guide the economic ship of state as "normal." They were indeed far from normal. We had a high tide of activity created in the postwar period that was destined not at all to continue in any normal way.

First, after World War I we had a very rapid investment in inventories, as in that period too we emptied the military pipelines and filled them with needed civilian goods. The inventory accumulation of that day was immense even judged by today's standards now that we enjoy a total net national income of more than $200 billion in contrast with the net national income of only one-third of that figure immediately after 1918. The inventory accumulation then was accelerated by rising prices, but it is interesting in this connection to observe that inventory accumulation after World War I reached the colossally large figure of eight and a third billion dollars and that the price level reached an extremely high level in May, 1920 caused in considerable part by this very accumulation of inventories. May I here add that in the past month the price level in the past four weeks passed the all-time high record of May, 1920.

After the collapse in 1920-21, with distress inventory liquidation on a great scale, inventory accumulation fell to the relatively small amount needed for a steadily growing population producing increasing amounts of goods.

The next wave of investment after World War I was the expenditure of producers for plant machinery and equipment. That rose to high levels and was accelerated by the rise of that extremely new devastating phenomenon — the American automobile. At the same time we had had a rise in exports—how familiar all these terms are today — as we then, too, aided Europe in her recovery as we are doing once again. After the decline of 1920-21, which was mostly a price decline and extremely serious, as you will all recall, in many raw materials such as cotton, we moved forward again. Prices then at the wholesale level generally fell a full 40% and the prices of agricultural raw materials fell by about 55% as a general average.

After the decline had ended in 1921, the next wave of investment broke upon the community. That was the immense expansion of the home building industry, which by 1923-25 was producing more than 900,000 houses a year, a record which since has not been equalled but which may be equalled in this very year, 1948.

It is a sad thing to record, for a great nation such as ours with a population growth, in the intervening 25 years, of more than 25 millions and, because our families are smaller, with a rate of family formation that has even grown faster, that we have not got our house-building industry back to the standards—they really should be thought of as low—of 25 years ago.

The fifth and last wave of investment was the expenditure by consumers for huge amounts of consumers goods culminating in the purchase and manufacture of 5,328,000 automobiles in 1929. Only in two years since that date, last year and 1941, have we even come close to making 5,000,000 automobiles a year.

This last wave of investment by consumers in the new consumer conveniences — the automobile, the radio, the electric icebox, electrical appliances generally, etc.—was the last wave of high economic investment we experienced before the storm.

What came in next was what I like to call "an upside down wave." That kind of wave, you all know, is "recession." Apparently we got recession in all the waves at once (this has been the subject of careful investigation by a noted but now disappeared Russian economist named Kondratieff) because our level of industrial production fell from a figure of over 100 to the low level of plain 54 (1923-25 equals 100). Wholesale prices which, as the result of improved technical efficiency, had fallen a little to 95 in 1929, fell to just plain 60 in 1932 and 1933 (1926 equals 100).

Then we struggled hard to return to stability. In the various attempts we made, I ask you to consider only one such effort. That was the effort of the Treasury, to use its own words, "to strengthen the tax structure." It did that steadily in the 1930's until by 1937 the cash budget of the Federal Government was almost within close sight of balancing. What do you think about that kind of strengthening of the tax structure when it was done upon the base of an economy so weak at that very moment as to have 10 million of its members unemployed in cities and to have dammed-up, hidden unemployment of 5 million more on American farms (as was demonstrated when in the early years of the late war that number of people left our farms but, despite the fact, those remaining on farms produced 30% larger output with that 16% smaller labor force)?

Clearly this must yield some kind of evidence that the tax structure exerted a repressive hand on the community. Would economic activity not have been more buoyant in the 1930's had we dealt the taxes with a less heavy hand so that those lesser rates, given the more buoyant employment and output, would have produced a balance in the budget and promoted a drive toward fuller utilization of our human and material resources?

What Happened During World War II

Now let us jump ahead to World War II. This present war was one that cost us in four months more than the total cost of World War II. It was a war whose costs still outweigh everything else in our present Federal budget which is now over-balanced at around the $40 billion level in comparison with budgets that in the 1930's were never balanced at one-fifth such a level.

To bankers and economists the phenomena in the economic history of World War II are strikingly alike. Three immensely important things happened:

(1) The United States Government had so much for everyone to do and the bankers of the nation took over the task to see that all the government demands were financed, with the result that the net national income earned by the people of the United States doubled in the war period. That meant the American people would embark on their postwar economic careers with an income twice as large as any they had ever known or enjoyed before but quite without a factory and productive plant adequate to produce goods enough to meet all of these immense demands.

(2) But that is not all. In addition, during the war the American people and businesses accumulated $225 billion worth of additional liquid assets. Individuals retained $150 billion of this increase and businesses $75 billion. Thus, if the American people and industry were at all short of cash and liquid assets when the war began, by the time of its end they were endowed in a super-rich way with such assets in addition to hugely increased incomes. Thus, were there any demands that their now-two-times-increased incomes could not buy, the use of some of these liquid assets would easily cover any gap from the side of income.

(3) The third thing which happened during the war was that since the government, to fight the war, had a need of the new precious metals, the civilian population "went without." No new automobiles were assembled, no new electric iceboxes were built, few electrical appliances and many other goods were fabricated during the war. The government had to commandeer the relevant factories, workers, and raw materials to produce the weight of metal we were soon to throw at our enemies on every sea and on every continent.

We are now fortified with a gigantic income (which has further increased to above $200 billion in comparison with peaks that averaged $80 billion in the precious high years of 1929 and 1940-41) and with gigantic liquid assets ($225 billion), and a rapacious demand: What new kind of economic stew will be brewed out of these ingredients?

No more dynamic, productive, progressive, and generous economy has the world ever seen.

Our gross national product — which is the best measure of our total activity — has risen to a yearly rate of $246 billion in the first-half of 1948. Net additional income is at a $218 billion annual rate. Obviously we must be having some gigantic waves of investment that are thus thrusting levels of economic activity up to such high plateaus. What are they?

First, we had at the end of this war an immense inventory accumulation. The rate of that accumulation approached an annual rate of $10 billion at its peak a year or two ago. But even today it is continuing, but it has receded by more than two-thirds.

The next wave of activity was the immense amount of our net exports, which reached their highest level of an annual rate of $13.7 billion a year ago last May. Last year this rate was $8.7 billion. You will be interested to know that for the first half of this year the rate has averaged less than half of that figure, or $4.2 billion. So you see, when we list the causes of the current inflation, no further contribution, in fact some relaxing, has come from the side of inventory demands and net export demands.

Moreover, now that we are "catching up" on our aid to Europe and in many soft goods lines for domestic demands, there is little likelihood of further upthrusts to our economic indexes from the sides of inventory and net exports.

Excessive Capital Investment and Expansion

But our third wave of activity is a giant one, indeed. It is the immense effort of American industry and business to become geared with big enough factories and enough machines to produce all the goods that the American people are scrambling to buy with their large incomes buttressed as they now are by huge amounts of liquid assets.

A year or so ago a banker in Milwaukee observed to me that he thought every industry in Milwaukee was attempting to lift its output by 60%. I told him that as far as we had calculated that was exactly right. We were much too busy trying to build too many things too fast. The proof could be either his observation or the fact that we were doing it so rapidly that our equilibrium in prices and wages was being disturbed violently in an upward direction.

The total amount of plant and inventory investment by American industry, and total construction expenditures combined, are now at the rate of $36 billion a year. Thus we are seeing an immense "period of gestation" of all those additions to our productive machines that will give the American people the happy opportunity they are seeking of "all learning how to keep up with the Joneses." But such an effort to enlarge productive plant is fraught with grave danger for the future.

The reason for this is best explained by what I like to call the A and B theorem. This theorem is very simple in stating that an economy and its people ride high and handsome on the A curve, which measures the additions to money incomes that flow from expenditures for capital investment by industry. While those expenditures are being made—remember today's rate is $36 billion yearly—no goods come from those factories, but the expenditures swell the total money income of the community. That makes purchasing power, or to the economists, money demand, very high and strong. But observe that the B curve moves upward much later—later by the period of gestation which is as long as three years now in many cases. That means that our B curve which rises one two and three years later is the curve that measures the goods to pour forth from the new completed factories and many of them are going to get completed almost "all at once" in a year or so from now. Business last February said its plant expansions for a 50% rise in output would be 85% completed at the end of this year.

One American economist in bringing Arthur Spiethoff's terminology of the vessel theorem up to date has converted my simple A and B theorem into the bathtub theorem. That theorem says that if you pour into the bathtub at the spigot much faster than is drawn off at the drain, trouble is going to come either in an overflow of the tub or the spigot will be shut off with violent repercussions back at the source of our production and the resultant repercussions will be unemployment, idle factories and mines.

Well, last year our "total production of capital goods"—what we pour in at the spigot—was measured at more than $60 billion. The amounts drawn off at the drain—this total is called "capital consumption allowances"—were only about $12 billion. We hardly have yet an economy of that stability which will permit us to add to the total capital plant we have in the United States at so rapid a rate and maintain it year after year. In fact, for a good many reasons, we are now working ourselves out of jobs.

First, all the new factory and equipment gives us a more efficient plant so that our improved productivity "idles" perhaps 400,000 workers a year. Then the natural growth of our labor force is at a rate of about 700,000 a year. Thus we have to make more than a million new jobs a year just to hold our own in the fight against unemployment. When it is recalled, too, that many of these plant expansions are almost completed, will soon be completed so that money incomes will tend to shrink as that expenditure declines, and when it is further recalled that the new factories will your forth many new goods as soon as done, some idea of the price pressure that lies ahead of us is obtained.

When will that pressure materialize? Well, we have seen it already happen in some lines, noticeably many textile items, radios, and several other gadgets, and it is probably very likely on its way in the case of food, subject, of course, to our national price support policy.

If we could make all our adjustments in this manner to which our friends at the National City Bank have applied the term "rotational" we would be fortunate indeed. But the plain fact is plant expansion is so out of size to all other elements in this "rotation", it is so large that we can only make more of these rotational adjustments to secure stability if we learn how to bring in new "investment components" to take the place of the old to sustain the economic tide, and if we learn how to do so in time and in adequate amounts.

But first may I observe, in an entire agreement with Paul Hoffman, that we have had over-intense activity since the war ended. An economist friend of mine with General Motors recently put it, "Oh! If we could only get back just to full employment."

We would do well to run at a little slower pace. Perhaps we could have, without harm, a decline of 15% in total gross production, as Paul Hoffman has suggested, in the sum total of activity. But in light of the bathtub theorem, we shall certainly need some new investment components to close a gap that could come to quite a few tens of billions of dollars in capital formation alone, not to mention almost like magnitudes of decline that could come in the consumption components of the economy about which I have not spoken.

Next, after allowing for the resilliency of such an illustrative 15% decline in total activity, what would we be able to bring in the way of new investment activity to sustain total employment and out-

put and incomes at levels high enough to avoid radicalism—political and economic—in our country?

I would like to suggest two lines of activity we should add. First, I think we should master the problem of building, as Senator Taft has urged, a million and a quarter houses for each of 10 or 15 years. We need the houses and a great country like ours should be able to afford them. But we have not learned how to put that industry on anything that could be called "a mass-production basis." Then in addition we need to learn how to rebuild our cities. They have dry rot, blight and slums around a central hard core. Those blighted areas decline greatly in value so that no tax return can keep our cities out of financial difficulty. The only way we can do that is to rebuild the cities and restore our higher property values so that fair tax rates will cover municipal budgets. I think that is the greatest single task ahead and once we learn the art of it we should have here a useful investment component that would cushion the cycle to the tune of more than $5 to $10 billion extra year in addition to ordinary expenditures for somewhat similar purposes.

Next, I think, in this country we need fine new highways. We have all the new automobiles on the way now and we need good highways upon which to drive them. Back when planning a postwar activity, I said, when at the Department of Commerce, that after the war we would first want new automobiles to drive upon such highways as we had, before we had to make new highways at the expense of not having the new autos. But soon we shall have the cars. Then comes the problem of highways.

For example, I would like to drive to the Gulf Coast some time every Winter and should be able easily to do so from Minneapolis. In my work of teaching we frequently have 2½ weeks' vacation at Christmas and that should be possible. But I am denied the privilege of visiting you in that season practically solely because our highways are inadequate. Those who can take a longer time may manage the trip, but not those of us who are in a hurry and yet want safety.

Here is a form of activity that could amount to a $15 billion program for two, three or four years of a depression and help to create as many as two million "on-site" and one million "off-site" jobs.

But what group is to be the decisive one in formulating plans to maintain total investment and thus avoid depression? That group, as I wrote much earlier in this paper, I have come to the firm conclusion is your group—the bankers of the United States. Engineers can plan, and without much difficulty; businessmen can encourage; economists can discuss and plan, too, as we have done in this session this evening. But the crucial plan is the financial plan. That is your problem.

So I leave with you the problem which is the hardest of all, to bring forward from the banking groups in America sound financial plans whereby immense residential rebuilding of our cities, and huge programs of highway building can be soundly financed by fair combinations of private and public credit to the very great advantage of all of us.

Now, in conclusion, you may have one more question in your minds, as did a group in Washington with which I discussed the same question we have been talking about tonight.

That question is: Suppose we succeed in having a fairly high return of activity for a few years ahead, and then suppose we further succeed in bringing in new investment components to hold the high tide of activity we seek for 20 years ahead, will we not then have an extremely severe depression?

There are two answers to this. First, through your good effort in solving these hard problems we will all have become rich first.

Second, we should leave, I think, a few thorny economic problems to be solved at future meetings of the Alabama Bankers Association Conference here at University, Alabama.

Essentials for Economic Health

(Continued from page 3)

receiving an income from her late husband's foresight are creditors. Every owner of a government bond is a creditor. Anyone who has money in the bank is to that extent a creditor. The position of all such creditors is affected adversely by inflation.

Avoidance of Excesses

Economic health, like human health, involves avoidance of excesses. A common tendency is to be rather complacent if not enthused over inflation because it seems to give the economy a stimulating glow of activity and health. There may be some justification for such a feeling to the degree to which this condition expands needed production for the satisfaction of man's wants. Unfortunately, inflation does not stop with that. Although we may not realize it while the process is under way, any decided inflation causes the pendulum to swing too far. The economy gets out of balance and the subsequent adjustment required to restore a balance is by no means either painless or costless. The only escape from the morning-after headache of deflation is to avoid the night-before excesses of inflation. The situation in our economy in the years ahead will be affected by our behavior at present. If we persist in sowing to the winds we must expect to reap to the whirlwinds.

Conditions Contributing to Stability

A reasonable degree of stability is a necessary condition for a healthy economy over a period of time. It is consequently in order to examine some of the conditions which give promise of contributing to such stability.

The term "stabilization" has been used in a special sense so frequently that it may be well to indicate what is meant by stability in this discussion. Stabilization often is used as a polite designation for some scheme of raising prices to some arbitrary level and keeping them from falling below that level. This is not the sense in which the term stability is used in this discussion. Stability here refers to productive activity and output as well as price. As far as production and employment are concerned, a high level is important because such a condition is basic to human welfare. Stability does not mean an absence of change. Provision must be left for changes needed to keep the economy in balance. In a dynamic world we have constant change. We cannot have progress without changes. We consequently want changes which are in the direction of progress but we want to hold other changes to a minimum.

It may be well to distinguish between stability in the economy generally and stability in individual lines or industries. Pressures on the government come from this and that group to provide protection and measures for their particular aid. Such pressures frequently do not seem to be unduly concerned about the consequences of granting their demands as far as the rest of the economy is concerned. If we yield to such pressures we are likely to create instability rather than stability. An illustration taken from prices may help make this point clear. Stability will not prevail if there are violent swings in the general price level. Moderate ups and downs are natural in a dynamic economy. The problem is not to eliminate variations in the general price level but to avoid conditions of boom and bust. If reasonable stability can be achieved in the general price level, prices of individual commodities can be left to find their own levels. They normally will vary from the general price level but will be related to the latter. They will acquire stability from stability in the general price level. If we attempt to deal with individual prices by government action, we are more likely to create rigidity than to foster stability.

Fiscal and Monetary Policies

Fiscal and monetary policies of government can play a significant role in stability or its lack. It is probably natural for the taxpayer to view taxes as funds diverted from productive uses. He presses for lower taxes at least as far as he is concerned. He may be more complacent about taxes seemingly paid by others. Too often the popular view fails to give sufficient heed to the essential contribution of many government services. We tend to be more enthusiastic in demanding services from the government than in paying their costs in the form of taxes.

Federal taxes in a sense do go largely for purposes not directly concerned with satisfying our normal daily wants. This arises from the fact that the Federal Budget is heavily weighted with payments for past wars and preparation for future wars. Until mankind reaches the level of intelligence required for settling differences without resort to destructions of war, the costs involved will have to be met. One of the unfortunate features of war is that it creates instability. It does this not only by its effect on our production and outlets but also because of the way in which modern wars commonly are financed. We seem to be perfectly willing to engage in inflationary borrowing during wartimes even though in our saner moments we realize that the piper eventually must be paid. Taxes were raised to record levels during the recent war, but if we had faced realistically the fact that wars are destructive and call for sacrifices rather than create prosperity, we would have paid even heavier taxes. As soon as active fighting stopped, pressures began for lowering taxes even though a large share of the money costs of the war had not been met.

The politician may gain votes by promising to cut taxes by firing the bureaucrats in Washington. It may be true that not every employe on a government payroll is absolutely essential. However, the facts are that any major reduction in outlays will involve cuts in services regarded as essential; in benefits to veterans; in allotments to armed services, or in debt reduction. Promise is easy; performance is difficult.

Taxes will need to remain high for the indefinite future. However, it is a mistake to view taxes as amounts taken from the income stream. Taxes redistribute funds, they do not make them vanish.

Tax policy may contribute importantly to stability. While high taxes will have to remain, we should make every effort to develop a tax system which will not be an unnecessarily heavy drag on productive activity or on consumption. It also needs to be borne in mind that if a serious depression occurs government inevitably will have to step to alleviate suffering. If government fiscal policy is to aid stability we must build up reserves in good times to help carry us through the bad. Taxes can be employed to slow down booms on the up side as well as to keep us from falling clear down in the depths on the downswing.

The volume of money in circulation, its velocity, the availability of credit and other monetary factors are important forces in the economy. This is a highly complex field which is not made less so by the demands and pressures of groups and individuals for programs which they think will serve their individual or immediate ends. The experience of some other countries shows the chaos which results from loss of confidence in the monetary system. The integrity of the dollar must be safeguarded if we are to enjoy stability.

Role of Credit

Credit supplies a major share of the financial lifeblood of our economy. In some respects credit tends to add to rather than reduce instability because it commonly is easier to get credit when times are booming and more difficult when the going gets tough. Credit is not an automatic stabilizer but policies to tighten up on credit can help reduce the boom and more credit can help speed up recovery in depression. This applies to both private and public operations.

While credit is essential to production an expansion of credit does not always mean a corresponding expansion in output. It takes resources as well as credit for production. Housing is a case in point. Some of the current pressures for easy credit terms for housing apparently rest on the belief that if we provide ample credit more housing will soon be available. But houses cannot be built without lumber, brick, cement, steel, labor and other requirements. In a period when demand far outruns available resources, easy credit may have as the major effect that of increasing demand for existing housing, materials and construction so as to drive up prices and increase costs. The long-run effects in terms of burdensome debt and foreclosures may become unfortunate.

Objections may be raised to public controls over conditions affecting the availability of credit on the grounds that they interfere with private enterprise. Some even contend that such controls are a step in the direction of socialization. Without defending all controls, it is rather clear that certain controls are necessary for stability in this field. In connection with controls, it may be well to note a distinction between laying down and enforcing the rules of the game and participating in the game as a player. The economic game cannot be played without rules. Regulation of reserves, of discount rates, of open market transactions and the like provide a framework within which the bankers and businessmen make their decisions. These regulations may influence the decisions of private enterprise but do not usurp the right of private enterprise to make decisions insofar as they relate to the business concern or the individual.

Large-scale organization has become characteristic of many lines of business enterprise. Under modern circumstances no enlightened individual will contend that labor and farm organizations are not an essential part of the economic structure. Economic health depends in no small measure on group and individual behavior and attitudes. Production will not remain indefinitely on a high level unless private endeavor does its best to keep it there. Investors must be willing to continue to assume risks and to provide expansion. Management must do its share towards achieving constant gains in effeciency and in maintaining peace through good labor relations. Labor leadership and members need to understand better than some of their present pronouncements seem to indicate that everyone cannot have more for producing less. Shortening of hours and increasing rates of pay unless earned by increased productivity may in some cases create a squeeze on profits, but in most instances will drive up costs and except in conditions of abnormal demand may create unemployment and thereby reduce want-satisfying power. The task of finding the balancing point is not simple but is one which must have the best attention of everyone involved if we are to have stability of production at a high level.

Farmers, by the nature of their business, maintain output better than many others and help alleviate rather than add to distress during serious depressions. But best health will not be enjoyed by the economy if agricultural leadership insists on arbitrary price supports or other forms of government aids to avoid having to adjust to changed conditions. The best solution to the price difficulties of agriculture lies in economic good health in which active non-agricultural production provides purchasing power for farm products and employment outlets for farm people not needed on the land. It might be well to pay more attention to problems of maintaining a healthy economy and less to the seeking of special aids.

Modern communication and transportation have shrunk the physical world to a fraction of its former size. In consequence, our economic welfare is more dependent than ever on the situation in the rest of the world. Without reasonable prospects for enduring peace, we will live in constant dread of war and will need to divert resources from the satisfaction of human wants to military protection against extinction. While the activities associated with military preparedness may give a semblance of prosperity they actually divert productive resources from uses for the satisfaction of normal peacetime requirements and consequently lead to a lowering in our levels of living. A very important essential to economic health consequently is the development of conditions under which we can live and trade with the rest of the world without having war clouds constantly on the horizon. We will do well to realize in this connection that as the leading nation in the world we are affected by the way the rest of the world lives and produces. We can best serve our own welfare by doing our utmost to improve productivity the world over.

The above does not exhaust the possibilities of the subject. Its ramifications are such that it is well nigh inexhaustible. By way of summary we might return to the point made at the outset. The state of our economic health depends upon what and how much we produce, how efficiently we produce it and how we distribute and use the results. This nation has been generously provided with human and natural resources. Their use is up to us. The maintenance of conditions favorable to economic health is a responsibility on which no individual or group has a monopoly. It is a responsibility of every citizen. The government is a servant of all of the citizens in carrying out these responsibilities. It should not be expected to serve or be permitted to yield to special interests whether of agriculture, industry or labor when results will be contrary to the general good. The problem of maintaining good health in an economy as complex as ours is far from simple. It is one which deserves the best thought and study of all of us.

Allan McLane Dead

Allan McLane, who retired ten years ago as a partner in the Wall Street brokerage firm of Redmond & Co., died at Santa Monica, California at the age of fifty-three.

As We See It

(Continued from first page)

deal of crowding still exists at some places at all events. Obviously prices of individual homes are high by almost any standard. Comparatively speaking, rents are low, but, of course, returns obtainable upon rental housing facilities are not such as to bring in an adequate enlargement of supply. The result is that low rents arbitrarily enforced by government defer rather than hasten the day when it may be possible for all those who wish to rent and have funds in reasonable amounts for that purpose may find accommodations. All this is clear enough, but precisely how bad the current situation really is in comparison with other periods of shortages it is quite impossible to be certain.

They Want More

One thing is quite clear. Consumers generally are, for one reason or another, now refusing to accept what used to satisfy them or was at least tolerable to them. That the individual now "needs" or "wants" more than he did formerly, or now demands better quality (or at least more gadgets) would be wholly unobjectionable, of course, if it were accompanied by a correspondingly greater resolve to obtain these better things of life in more abundance by his own effort and initiative. The trouble, of course, is that it is not so accompanied. On the contrary, this enlarged demand is accompanied by an observably reduced willingness on the part of a great many, perhaps, the majority, to exert themselves to satisfy their own wants. This state of affairs has placed its mark upon the housing situation, and one result is that we constantly hear wiseacres saying that "never again" can the lower income groups, particularly in the larger cities, be expected to pay their own way as respects housing.

Housing, therefore, affords an excellent example of what is taking place in our economic thinking, and in our economic system. It is now, and has been for some time past, affected with an insidious disease which has begun to gnaw at its vitals. Evidence of this internal malady are now observable to the casual eye only in spots here and there, but the disease is progressive, as the doctors say, and if left to run its course will in the end have disastrous consequences. Elements of the same infirmity are now present in a number of other branches, notably agriculture, local transit and the electric power industry. Indeed, the nature of infirmity is such, and its incidence is so general, that it could scarcely fail to affect all branches of business, directly or indirectly, in one degree or another, but it is ordinarily more easily recognizable in those industries providing goods or services which somehow come to be regarded as "inalienable rights" of each and every man.

The Facts!

Let us take a good look at the essential current housing facts so far as they are readily available. The number of new homes built in 1946, 1947 and 1948 is very large. The industry is still today going at capacity. So great has been the volume of construction that were it not for the accumulated shortages due to the "lost" New Deal years and the war, supply in those areas and in those types of houses being constructed would long ago have far exceeded demand. As it is, current reports are that single family homes, indeed homes constructed to house not more than, say, four families, are now in about normal supply. But, according to many observers, there is a fly in this ointment. These houses are for the most part built not for rent, but for sale, and the price asked for them more often than not places them beyond the reach of the "low income" groups about which we hear so much. It is probably true that the home ownership idea has been overworked. Home ownership is commonly regarded as highly desirable, and in many circumstances such it certainly is. But there are many other considerations, too.

Meanwhile, those millions in metropolitan centers who for one reason or another find it economically desirable, or even necessary, to live in apartments rather than in individual homes are apparently still without an adequate supply of available facilities. There certainly has been no revival in apartment house construction comparable to that in the individual house for sale. The reason is obvious enough. The return which can be reasonably expected on the millions necessary to the construction of such large buildings is not sufficient to attract funds. A similar reason, doubtless, accounts at least in part for the fact that the smaller dwelling units have been so largely constructed for sale rather than rent. Such reluctance on the part of builders and investors is unquestionably strengthened by income tax laws which tend to take away so large a part of such income as is earned.

The Real Difficulty

Now, precisely what is at the root of these difficulties? It is commonly and correctly said that the trouble is found in the high cost of construction. But why is construction so expensive? The answer to this question is easy enough to find. One has merely to study the wage rates of carpenters, bricklayers, masons, electricians, and the rest, and to compare them with the amount of work these craftsmen are willing to do for those wages. It at once becomes obvious that wages like these for production like this simply can not be paid except at very high prices for the finished product. If that other factor in cost—materials—is similarly studied, and if the cause of the high prices of these materials is ferreted out, it is soon found that building materials are high for the self-same reason that houses are high.

Now take all this through to its final end result, and we find at once that it is traced to one simple fact. That fact is that large numbers of people are demanding more than they ever had before—not only in terms of money, but in goods and services—at the same time that as many, or possibly more, are less willing, than in the past to sustain the effort necessary to produce that which they demand. Two factors not heretofore usually present in the American scene render it more than ever necessary that production be efficient and as abundant as it is possible for it to be made. One of these is the fact that we are giving away large quantities of goods which must of course come from our current production, and the other is that compared to anything that we have hitherto known in peacetime, military outlays are tremendous.

Do what we will, we can not have more than we are willing to produce.

Runaway Inflation or Depression Unlikely, Says Senator Taft

(Continued from first page)

campaign when all members of the House and many of the Senate are running for re-election.

Congress had given full consideration to the President's proposals at the regular session and in most cases the quarrel resulted from a fundamental difference in government philosophy between the President and Congress. The President has a New Deal program of unlimited spending, expansion of the power of Federal bureaus over States, cities and individuals, and the regimentation of agriculture, labor and industry. The Congress believes that problems must be solved within the principles of liberty, equality and justice which guided this country for 150 years. The fundamental differences with the President can only be settled by a vote of the people at the November election.

(2) When the President submitted a program of some 15 major proposals which would take at least six months to work out satisfactorily, the Republican leadership determined that it would give no consideration at this time to long-term programs, but would examine in detail again the President's suggestions on prices and housing and determine whether there were any suggestions for additional Executive power which could be immediately helpful in those fields.

While we found that the President's powers were already comprehensive enough for him to deal with those problems if he really wanted to, we found various situations where Executive powers might be somewhat enlarged and our committees went to work at once to consider the President's detailed proposals. It is significant that the Presidential advisors did not agree among themselves on the causes and cure of inflation.

The Anti-Poll Tax Failure

(3) While waiting for the committees to report, we attempted to pass the bill outlawing the poll tax, which had not been taken up at the regular session. In his reckless speech at Philadelphia the President had said:

"But the Republicans all profess to be for civil rights measures. But Congress failed to act They had enough men to do it. They could have had cloture; they didn't have to have a filibuster. They had enough people in that Congress who would vote for cloture."

The President made this statement knowing well that the present cloture rule is completely innocuous against a determined filibuster by 20 Senators. We brought up the bill. We attempted to invoke cloture. It became apparent beyond the shadow of a doubt, that there is no effective cloture rule in the Senate today and that a filibuster by 20 men on a motion to take up cannot be overcome in less than a month or six weeks.

Remember that Senator Barkley had tried three times to get a poll tax bill through a Democratic Senate without success. The present situation is intolerable and may at times threaten the national security. We determined that the cloture rule must be amended to permit the closing of debate in a reasonable time and appointed a committee of the Republican conference to prepare an amendment to the rule to be brought up at the next session of Congress.

This amendment itself is subject to filibuster, and we may be forced to spend weeks at the beginning of the next session to secure the amendment. We are determined to do so.

(4) In his convention speech the President tried to blame high prices on the Republicans, but he said:

"Farm income has increased from less than $2,500,000,000 in 1932 to more than $18,000,000,000 in 1947. Never in the world were the farmers of any republic or any kingdom or any other country as prosperous as the farmers of the United States; and if they don't do their duty by the Democratic party, they are the most ungrateful people in the world. Wages and salaries in this country have increased from $29,000,000,000 in 1933 to more than $128,000,000,000 in 1947 . . . and I say to labor what I have said to the farmers, they are the most ungrateful people in the world if they pass the Democratic party by this year."

Of course you can't have high farm prices and high wages without high consumers' prices and if the Democratic party is going to claim credit from the farmer and labor they can't avoid responsibility for the high prices which have to be paid by the consumer.

Blames Administration Policies

How can an administration which has been in power for 14 years escape the responsibility for high prices which are the results of its policies?

Inflation results from the tremendous deficit before and during the war, from the encouragement of exports to all parts of the world without corresponding imports, from encouraging patterns of general wage increases on the theory that they would not increase prices, from the failure to use powers to restrain bank credit, and from spending vast amounts of government money for every kind of project, competing for labor and materials with private industry.

The President's only complaint is that the Republicans will not give him power to fix wages, to fix prices and ration commodities. This is like tying down the safety-valve while you go on stoking the furnace. It would only bring an explosion in the end. The President called back Paul Porter and presented a bill rolling back prices to November, 1947, and giving him power to reinstate the OPA whose 65,000 employees cost the government at least $150,000,000 a year.

The President himself says that he will only use selective controls, but he himself abolished price controls on Nov. 9, 1946, and gave as a reason the fact that you could not have selective controls. He said:

"The Price Administrator has advised me that, with so much of the economy freed from price controls, clinging to the rest would, in his judgment, lead to distortions in production and distribution to an extent far outweighing any benefit that could be achieved."

Certainly you cannot fix the price of wheat and corn and other grains without fixing the price of chickens and eggs and dairy products. Our economy is so interrelated that once we start on a program of regimentation we cannot stop short of regulating all major products and rationing many of them.

Restoration of OPA Opposed

It is my view that the restoration of OPA, subsidies, price control, wage control and rationing —the police state methods decried by President Truman himself— would only make the situation worse, create black markets and check the increase in production which will reduce prices. The difficulty with price control is: first, that it won't work in time of peace; second, that no one knows enough about the infinitely complicated economy of this country to do the job right; and, third, that if prices were held down arbitrarily, production is discouraged and consumption increased.

We would have a bear by the tail and no way to let go or improve the situation. We remember the black markets after the war, the inability to buy the commonest articles of clothing or food, except, perhaps, in the black market. Eighty percent of the meat was in the black market, and legitimate slaughter had so decreased that there were neither enough hides for shoes nor enough insulin for diabetics. There is hardly a country in the world us-

ing controls which is producing enough goods for its own people.

It is perfectly useless to go on with the policies which create inflation and then try to prevent their results by calling in the police. The President can check these causes by reducing the amount of government spending which in many fields is still within his control, by tightening up on housing credit for higher-cost houses and requiring strict appraisals, by limiting exports from the United States, the excess this year amounting to about $8,000,000,000, only part of it to Europe. He can, through the Treasury and Federal Reserve Board, limit the expansion of bank credit and the creation of more currency.

He can direct the buying of goods for European relief in such a way as not to encourage increases in price. He can direct the Department of Agriculture to encourage production instead of attempting, as they did in July, to reduce the number of breeding cattle by 500,000 when our meat supply is as short as it is today. The truth is that the moment any agricultural price even threatens to decrease, the government rushes to bolster it up by purchases and propaganda. They are really more concerned about deflation than about inflation.

Attacks Artifically Low Interest Rates

The traditional methods of preventing inflation are within the power of the government today. The Federal Reserve Board can force an increase in the rate of short-term government bonds and can raise the rediscount rate. It has been discouraged from doing so by the attitude of the Treasury. We cannot hope to prevent inflation with an artificially low interest rate. In examining the powers of the Board, we decided that they could effectively use the power to increase bank reserves above present limits and we authorized them to increase the reserves 4% more over the present percentages, amounting to a possible increase in the reserves of about $3,500,000,000.

This power, while useless in itself while the banks can unload their "governments," can probably be used in connection with the other powers I have described. We also granted the Board power to limit instalment credit for consumers. This is not a large item, but did represent about $2,000,000,000 of increased credit last year. Credit control has been a traditional power of the government and it is probably the most important single power to check inflation. In fact, it must be carefully used not to go too far. I venture to predict that the Board will never use all the powers the law now gives it.

Sees No Likelihood of Extreme Inflation

The present situation, while serious for millions, is not likely to produce either an extreme inflation or a depression. Wholesale prices are now higher than they were in 1920, but they are only 2% higher than they were in January, 1948. Furthermore, the weekly earnings of factory workers in 1920 were only $26.61, and they are now $52.81 a week. There are many reasons to believe that we are reaching a stabilized price level. Wheat and corn have already dropped close to the support prices and will probably be followed gradually by many other foods. Even in the price of meat, where prices are most outrageously high, the President in his message to Congress indicated that there was no need for rationing. He said:

"On the basis of present facts, and unless further shortages occur, this authority (to ration) might not have to be used at all."

The President now has every power to prevent inflation, except price control, and if price control is ever accepted in time of peace, it will mean the end of economic freedom in the United States.

Have Aided Housing

(5) With regard to housing, much already has been done to solve the problem. The President's economic report submitted last week, says that more than a million new residential units will probably be added to the residential supply during 1948. He says: "This volume of residential construction is already straining the capacities of the construction industry in many areas and of producers of some construction materials and is unquestionably competing with other primary national needs."

This increase is due to legislation enacted by the Republican Congress. Several years ago we granted unlimited emergency powers to the Truman Administration and hundreds of millions of dollars of subsidy funds, to remove bottlenecks and get construction started. The program was a complete failure. President Truman himself abolished the controls, dismissed Wilson Wyatt, and returned more of the subsidies to the Treasury. More than twice the number of units are being built this year as were built under Wyatt.

Housing credit is one of the elements adding to inflation. We did find, however, that too much of the government-insured construction was going into housing costing more than the average citizen could pay and that there was practically no rental housing being built under the program. We therefore amended the law to encourage the construction of the cheapest types of housing and also to encourage the construction of more rental units. Our idea is not to increase the amount of money going into housing, but rather to direct the flow of that money into more small houses and rental housing where it is so badly needed.

The President's only complaint is that we did not include a public low-rent housing program, designed to add about 100,000 units a year, in which the rentals would be subsidized by the Federal Government for the lowest income groups. While I believe very strongly in this program, it has been a subject of major controversy between House and Senate, and the present House of Representatives has taken the position that it is not needed at this time and would only divert materials from the private housing now being constructed.

With much regret, I agreed to postpone consideration of this question until January and do all the other things which might be helpful in the housing situation. I shall re-introduce the public housing bill in January and press for its prompt consideration. There was, in my opinion, no possibility of passing it at this session of Congress.

(6) Having passed the only measures which could possible be regarded as emergencies after a careful study of the President's program, we adjourned. The President himself at Philadelphia, suggested 15 days as the time that we might take at this time to consider legislation.

Defends Work of 80th Congress

(7) The President calls attention to various matters on which the Eightieth Congress did not act. The President does not mention the hundreds of matters on which we did act. In this day and age, the Federal Government is involved in practically every problem that exists. The policies of hundreds of bureaus are under legislative scrutiny and are determined by legislation. Legislation should be a deliberative process, because it does establish permanent policies. Only a fraction of the entire field can be properly studied and handled in any one year. The Eightieth Congress has been largely concerned with cleaning up the war and starting the country on a peace basis.

A constructive program in other fields covered by the Republican platform will be undertaken with the cooperation of a Republican President. With Mr. Truman there has been a constant conflict and no cooperation whatever. The attitude of the President toward Congress is a sad contrast to the cooperation which he has received in the whole field of foreign policy. We have done our best to assist him, and sacrificed many of our ow views so that it might not appear to the world that America spoke with two voices. Yet now, the President is trying to make political capital of the policy made possible by Republican and Congressional cooperation, while he vilifies the Congress.

The only reasonable way to work out a Republican program in detailed legislation is in cooperation with a Republican President.

Half-Year Monetary And Credit Outlook

(Continued from page 9)

be needed to meet optional redemptions of maturing marketable securities by private investors and possibly $700 million may be needed to cover net cash redemptions of saving (tax) notes unless their terms of issue are made more attractive. On this basis $2,300 million would remain available to retire government obligations held by the Reserve banks.

This sum would seem adequate to offset factors tending to increase bank reserves during the next six months, provided the total demand for credit does not become too strong and necessitate very large market support purchases by the Reserve System. Even though this sum might prove adequate, conservative policy would dictate an increase in rates on short-term government obligations. An increase in rates on short-term government obligations would create a demand for such obligations and would enable the Reserve banks to shift some part of their holdings to commercial banks and other investors. To the extent that this were done, the Treasury would not be compelled to draw so heavily upon its own cash resources to redeem maturing debt held by the Reserve banks in order to offset the effect of support purchases. Consequently, the possible necessity of depleting the War Loan accounts might be avoided. Although an increase in short-term rates is, in the words of Chairman McCabe, "a necessary and desirable step" from the standpoint of money market management, such action may not be taken if other considerations such as the November elections and the international situation are given primary emphasis.

With Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—A. L. Hoogs is now connected with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Calder With A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA.—Hugh C. Calder, Jr., has become associated with A. M. Kidder & Co., 122 West Forsyth Street. He was formerly with Allen C. Ewing & Co.

With J. Barth & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Eugene H. Gray has become associated with J. Barth & Co., 482 California Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Higher interest rates became a reality, when Secretary of the Treasury Snyder announced on Aug. 9 that the fall refunding would be taken care of with 1¼% Certificates and 1⅜% (18½ month) Notes. . . . The timing of the announcement was a mild surprise, and the government market was again pushed around, following a minor recovery that had been going on in the longer eligibles when it became evident that the Congress would tone down the authority of the Federal Reserve Board to increase reserve requirements. . . . All sections of the list were affected as the longest Certificates went below 100. . . . Short- and intermediate-term bonds gave up a few thirty-seconds, with the longer eligibles down about a quarter of a point and the partially-exempts again all over the lot. . . . Volume was light and the market largely professional because the authorities were not inclined to do any substantial amount of supporting of the bank obligations. . . . The ineligibles continued at "pegged" prices. . . .

AT WHAT LEVEL?

There is considerable question as to where support prices are on the eligible bonds, especially in the intermediate maturities. . . . The longer maturities held slightly above previous "pegged" levels, but it was purely a quoted market because investors and dealers alike are too confused to make real bids. . . . The authorities, by not letting the market know whether the old support prices on the eligibles would be held or not, have thrown another element of uncertainty into the picture. . . . It might be that advantage will be taken of recent developments to lower "pegs" on bank issues. . . .

On the other hand, a 1¼% yield curve indicates that only minor price adjustments will have to be made in the eligibles and these may be the new support levels. . . . It could be that there will be a "free market" in the bank issues, as long as distress selling does not develop. . . .

COLLATERAL RESULTS

An increase in the rediscount rate, along with a general increase in the cost of all borrowing, will result from the higher Certificate rate. . . . Whether reserves will be upped appreciably will probably depend upon what takes place in loans. . . . (It is assumed that President Truman will sign the anti-inflation bill.) . . . Some believe, however, that reserve requirements in districts that have been showing a strong loan trend will be increased at once. . . .

The authority to increase reserve requirements by 4% on demand and 1½% on time deposits, should give the money managers enough power to frighten the money markets from time to time, in addition to mildly restricting the credit base. . . .

JITTERS

Monetary experts, economists and politicians have been having a field day for themselves and the net result of all these proposals and counter proposals is more and more confusion and uncertainty, which to say the least has not been helpful to the government market. . . . Money in itself is easily scared, which means that it will seek the safest haven possible, and under existing circumstances that is either cash or the shortest Treasury obligations. . . . Because of the many imponderables, fault cannot be found with investors if they continue to stay on the sidelines and do nothing until some of the clouds have lifted. . . .

It maybe that our monetary policies are based to a considerable extent on uncertainties, and if this is the case, then there is no doubt about the success that has been achieved. . . . "Open Mouth Operations" on a grandiose scale, such as that just put on in Washington, was one of the best shows yet, from the standpoint of creating confusion. . . .

INVIOLATE

Despite all the uncertainty that appears to exist over the maintenance of support levels for government obligations, there is not much likelihood that the 2½% rate on long Treasury obligations will be altered by the present Administration. . . . They have taken a definite stand and there is no reason to believe they will not continue to defend their position on this matter. . . . They also full well realize that allowing government bond prices to go below 100, is loaded with dynamite and they want no part of it. . . .

If there should be a change in Administration, the present group would have only about six more months in which they would have to buy governments at "pegged" prices." . . . There is no doubt about the ability to do that. . . . This would mean that the new Administration which has been doing so much talking about dropping the "pegs," would then be in a position to practice what they have been preaching. . . .

WAIT AND SEE

This raises the question as to whether a new Administration in Washington is likely to lower support prices on governments despite all the advice that has been handed out on that point. . . . It is easy to tell people what to do when one is on the outside looking in, and does not have to pay the consequences for what might take place. . . . It is an entirely different matter when the shoe is on the other foot, and that those who dance have to pay the fiddler. . . . A sharp decline in prices of government obligations below 100 might have a serious effect upon business in general, to say nothing about what might happen to demand obligations, such as savings bonds. . . . Confidence is a very elusive thing and once lost is extremely difficult to recapture. . . .

Despite all that has been said by the outs, about pulling "pegs" on Treasuries, they will no doubt do some very serious thinking about what might happen, before they act, in event they become the ins. . . . A soundly worked out refunding program could be the answer to many of the problems that are facing the government bond market. . . .

NEARING THE MARK

Purchases of government bonds, by the Federal Reserve Banks during the past week amounted to $402,264,000, of which $398,524,000 were due in more than five years. . . . It won't take many more weekly purchases like this one for the Central Banks to reach the figure of $1,500,000,000 forecast for the last half of 1948, by Chairman McCabe of the Federal Reserve Board.

Our Economic Foreign Policy

(Continued from page 6)

representatives of 53 nations agreed upon a text for submission to their respective legislatures for their approval. This text will be considered by our Congress early next year.

Third, the United States initiated the European Recovery Program. You are familiar from your daily papers with the progress of this mighty enterprise.

The efforts to reduce trade barriers and to put Europe on its feet have been well begun. They are indispensable steps towards world recovery. But the economic gains and trading improvements which they promise to bring about can be made permanent only by integrating them into a framework of world trade that will permit a broad and sustained expansion of commerce. The Havana Charter is designed to provide such a framework.

Fundamentals of the Charter

Let us therefore examine this Charter — this Constitution for world trade—to see what it would do and what it holds for good or ill for the United States.

The Charter does two things. It sets up an International Trade Organization. It sets forth rules which the members of the Organization will agree to follow in the conduct of their international trade. It is a comprehensive document of 106 articles and 30,000 words. It is the result of over two years of international negotiation, preceded by more years of preparatory work within the United States, Government and preliminary consultation with the United Kingdom and Canada. It reflects the comments of different American groups, given in public hearings in seven cities of the United States. It represents the harmonization, in a series of international discussions, of the diverse views of first three, then 18, then 23, and, finally, of 53 countries. These countries represent every stage of economic development and almost every variety of economic philosophy. That agreement was reached is a tribute to the skill of the negotiators and the good will of the participating countries.

The Obligation to Consult

This Charter reflects, first of all, belief in the simple truth that the world will be a better place to live in if nations, instead of taking unilateral action without regard to the interests of others, will adopt and follow common principles and enter into consultation through an international organization when interests come into conflict.

If I have a garden and my neighbors raise chickens, we may follow the law of the jungle: their chickens eat my vegetables and I shoot their chickens—and all of us lose. Or, we may consult with each other: we may sit on my back porch, talk over our garden-chicken problem—and try to reach a reasonably satisfactory solution. What is true of neighbors applies also to countries. The ITO provides an international back porch for the discussion and resolution of trade differences and the members agree to sit on it and talk before they shoot.

Decisions in the ITO, as on the back porch, are, except in certain special cases, by majority vote. The ITO is not a super state any more than the back porch is the city government. It derives its authority from the voluntary undertaking of members to settle their disputes through the ITO machinery. It can recommend measures for the settlement of disputes, but it cannot order any member to take any action. Nevertheless, it is not powerless. For if the ITO finds that a member, Country X, is not living up to its Charter commitments, it may authorize other members to withhold from Country X the lower tariff rates and other privileges which members in good standing enjoy. If Country X is dissatisfied with such a decision, it may withdraw from the organization.

By this process of consultation and decision we can avoid unilateral action by one country which will hurt others and build up a body of international law in the economic field by the case mehod.

Equal Opportunity for All

The Charter reflects the belief that each country should give equal treatment to the commerce of all other nations.

Nothing is more irksome to an individual, or provokes more unfriendly feeling between nations, than does unequal and unfair treatment. The founders of the Republic recognized this in their wise old Plan of 1776 when they adopted the principle of non-discrimination as its first article, and in 1778 incorporated it in our first commercial treaty.

And so, throughout the Charter runs the theme, to quote its language, that:

"Any advantages, favor, privilege or immunity granted by any member to any product shall be accorded immediately and unconditionally to the like product originating in or destined for all other member countries."

As in many other cases in the Charter, this rule could not under present-day circumstances be applied without qualification. Exceptions had to be made, for example, for important existing preferential systems, such as the preferences within the British Empire and those between the United States and Cuba. But even here preferences must not be increased and there is an obligation to negotiate them downwards.

In a few special cases, such as the formation of a customs union or the development of an underdeveloped country, a new preference may be allowed, but only in accord with defined standards and under the supervision of the Organization.

Reduction of Barriers—Public and Private

The Charter reflects the belief that excessive or arbitrary barriers to trade must be reduced, so that trade may be large and may flow to the maximum extent possible according to the drive of market forces.

To this end, members of the ITO undertake to negotiate with each other for the substantial reduction of the general level of tariffs, and to abandon the quota, the most effective of all barriers to trade, as a protective device. For 14 years the United States has followed the policy under the Trade Agreements Act, just renewed by the Congress, of negotiating for tariff reductions. In joining the ITO, other nations would undertake to do likewise.

To this end, members agree to lower the "invisible tariff" of customs formalities. Businessmen know that the red tape of hundreds of separate customs requirements, each different for different countries, cause wear and tear on trade, time and human nerves, and are often as effective barriers to trade as tariffs or even quotas. The Charter simplifies customs formalities and makes regulations more uniform as between members. It is the most comprehensive international agreement in this field which has yet been achieved.

To this end, also, members agree to prevent public or private commercial enterprises from engaging in practices which restrain competition, divide markets, fix prices, or foster monopolies. For trade barriers are not always imposed by governments. They are also imposed by private or public business concerns to restrict trade and to maintain higher-than-competitive prices. Members may bring complaints to ITO that enterprises in other countries are indulging in cartel activities injurious to their trade. The ITO is empowered to investigate such complaints, to request the offending member country to take remedial action and to recommend what that action should be. The Charter represents the first attempt in history to obtain international action for curbing international cartels.

Here again, however, there are exceptions to the general rules to take account of the current desperate shortages of goods and exchange in many countries and of certain special situations. For example, a country which is short of foreign exchange, as most countries are today, must of necessity, ration its imports, just as an individual of limited income must limit his expenditures. The Charter would permit quotas to accomplish this rationing. But the country must abide by certain rules in their use and abandon them when its exchange difficulties are over. Or a country employing a domestic crop control program to stabilize its agricultural economy may use quotas to restrict imports of the crop in question which, if uncontrolled, might jeopardize the program. But such quotas may not limit imports more, proportionately, than the domestic control program limits domestic production. And, in some cases, if certain strict standards are met and the ITO approves, quotas may be used to develop a sound new industry in an underdeveloped country.

These examples illustrate the basic approach of the Charter which is to establish the rule which we want to have prevail, so that our objective is clearly agreed, and to allow for necessary deviations in the form of exceptions, limited in extent, precisely defined, and clearly understood to be exceptions.

Multilateral Trade

The undertakings of the Charter about equality of treatment and reduction of artificial trade barriers, taken together, reflect the further fundamental belief that international trade should be multilateral rather than bilateral; that traders should be able to buy and sell where they please, exchanging goods for money and money for goods, rather than having sales confined to buyers who agree to deliver equivalent values in other specified goods. Multilateral trade permits the maximum interchange of goods. Bilateralism and barter limit the number, size and kind of business transactions to the capacity of the weaker partner.

The Charter reflects the belief that progressive trade policies must be supported by consistent policies for stabilization in the field of certain primary commodities. Prolonged and drastic fluctuations in world markets for these commodities can create widespread hardship and unemployment and thus undermine the very foundations of a cooperative world economy. Machinery and rules should be provided for reaching intergovernmental agreements to govern temporarily the production and marketing of such commodities when they are in burdensome world surplus.

To this end, the Charter provides that countries may, under certain circumstances, make a commodity agreement to regulate the production, export, import or price of a primary product. The conditions under which such agreements are permitted are, however, carefully defined. Agreements are limited to primary commodities (particularly when there are many small producers); there must be an existing or expected burdensome surplus which would cause serious injury; producing and consuming countries must have equal voice in the development and operation of the agreement; they must be limited to a duration of five years or less (although renewable) and they must be accompanied by a defnite program for solving the basic maladjustments in the field. The ITO has the right to determine whether proposed agrements meet these standards.

The requirement that producing and consuming countries have equal voice in making commodity agreements is especially important in the interests of economic stability and fairness. If limited to producer countries (as in the old tin cartel), the result might be unduly high prices to consumers. If limited to consuming countries, the result might be ruinous prices to producers.

The Charter reflects the belief that it is essential to develop the resources of underdeveloped areas and to make the fullest use of the resources of all areas. Increased production and increased consumption lead the way hand in hand to increased prosperity and one's most highly developed neighbors turn out to be one's best markets.

To this end, members undertake to take measures designed to maintain productive employment and buying power within their own borders as a means to stimulating trade, avoiding measures which would create difficulties for the economies of others, to encourage private and public international investment and to recognize the need for economic advancement of less well-developed areas.

Finally, and very important, the Charter reelects the belief that though nations may choose to use different systems of trading, it is possible for them to work in harmony.

In the United States we believe in private enterprise and free competition in our domestic and in our foreign trade. Our constant objective is the preservation and strengthening of the private enterprise system. This was the purpose of our negotiators who worked on the Charter. And we believe that the Charter will serve this purpose. Yet nowhere does it require that international trade must be conducted by private enterprise. Nowhere does it condemn state trading.

This may at first blush seem strange to you. The fact is, however, that we are very lonely in our belief in private enterprise Many other nations believe that the conduct of certain aspects of their trade, sometimes all of it can best be conducted, or at least should be controlled, by the State In fact, we engage in state trading in a number of cases ourselves This belief of other nations arises sometimes from the exigencies of the current shortage situation sometimes from a basic philosophy different from ours. But I am sure you will agree that it would be wholly inconsistent with our own convictions about individual liberty and national sovereignty for us or any nation to try to dictate to other nations the means which they must employ for the conduct of their trade. Nations like individuals, are entitled to their own opinion as to what is the best way to handle their affairs so long as what they do does not injure others.

What the Charter does, therefore, is to provide a framework within which our system of private enterprise can have the maximum opportunity to develop and to demonstrate its effectiveness; a framework in which private and state enterprise can work together; a framework in which state enterprise, hitherto free to do entirely as it wished, is made subject to certain rules of the game designed, so far as possible, to be consistent with the rules under which private enterprise must operate.

The Complexity of the Charter

Because international trade is complex and the problems of nations are diverse, the Charter is long, complicated and difficult to understand. Yet, complicated as it is, I doubt if it is much less easily intelligible than our own income tax laws or other laws under which we conduct our daily lives, or even some insurance policies and mortgages.

It would have been possible to draft a general declaration of principles and to have set up an international discussion and study group. This would have been easy—and it would have had little impact on world economic problems. General declarations, without specific commitments and implementing action, are as Prince Metternich said a century ago, "a sonorous nothing."

In the Charter we set our sights higher than a "sonorous nothing" of broad generalities. We wanted rules that were definite commitments that were specific—something that would work, not just in some future Utopia, but in the world today. That is why the Charter is complex.

Its Exceptions

That is, also, why the Charter has exceptions.

We wanted rules that would work for the long term: rules that would set the direction of our efforts towards expanding international trade in the years to come. But we could not overlook the fact that the realities of today's world demand measures to meet today's problems today. So the Charter contains transitional rules (call them exceptions if you like) to meet the immediate extraordinary situation as well as long-term rules for the long-term pattern. Either set of rules without the other would imperil the overall objective.

We also wanted an organization that many nations could join to seek a solution of common problems by common action. We could not overlook the fact that these nations had many different interests and many different points of view. We remembered the words of the Federalist, in commenting upon our own Constitution:

"The result of the deliberations of all collective bodies must necessarily be a compound as well of the errors and prejudices, as of the good sense and wisdom of the individuals of whom they are composed. The compacts which are to embrace 13 distinct states, in a common bond of amity and union, must as necessarily be a compromise of as many dissimilar interests and inclinations."

What was true of 13 distinct states in 1778 is true of 53 distinct states in 1948.

The Question for the United States

The question which we and other countries must now decide is whether this Charter shall be ratified and the ITO established. It can be improved by amendment as we work with it. It must by its terms be entirely reviewed in five years. But it cannot be renegotiated now.

The Charter is no panacea for the world's economic ills. It has many imperfections. It is not wholly satisfactory to any country because it reflects the views and recognizes the problems of many countries. But, never before in the history of the world have so many nations reached agreement over so wide a range of principle in their economic relations. The deepest need of the world today is agreement and a sense of direction. Nations can no longer solve their problems alone. National boundaries have long since ceased to confine either depression or prosperity. In a troubled world, ravaged by storms of controversy

and disagreement, representatives of the great majority of the nations of the world have come together in agreement on matters of basic economic importance. They have laid a foundation on which we can build.

Is it not the part of wisdom to take this foundation and build on it? We have taken the basic ideas of the statesmen of 1776 as the cornerstones of our economic foreign policy for today. Should we not, in considering this Charter—this constitution for world trade—remember what some of these statesmen said about our own Constitution of the United States? For when I was trying to write the conclusion of this speech, I found it already written for me in John Jay's address to the People of New York in 1778 about the adoption of our Constitution, saying just what I wanted to say to you in words that could have been written today:

"The men who formed this plan are Americans, who had long deserved and enjoyed our confidence, and who are as much interested in having good government as any of us are or can be. . . .

"The impossibility of agreeing upon any plan, that would exactly quadrate with the local policy and objects of every state, soon became evident; and they wisely thought it better mutually to coincide and accommodate, and in that way to fashion their system as much as possible by the circumstances and wishes of the different states, than, by pertinaciously adhering each to his own ideas, oblige the Convention to rise without doing anything. They were sensible that obstacles, arising from local circumstances, would not cease while those circumstances continued to exist. . . .

"They tell us, very honestly, that this plan is the result of accommodation. They do not hold it up as the best of all possible ones, but only as the best which they could unite in and agree to.

"Suppose this plan to be rejected: what measures would you propose for obtaining a better? Some will answer, 'Let us appoint another convention; . . . they will be better informed than the former one was, and consequently be better able to make and agree upon a more eligible one.'

"This reasoning is fair . . . but it nevertheless takes one thing for granted which appears very doubtful; for although the new convention might have more information, and perhaps equal abilities, yet it does not from thence follow that they would be equally disposed to agree. The contrary of this position is most probable. . . .

"Let those who are sanguine in their expectations of a better plan from a new convention, also reflect on the delays and risks to which it would expose us. Let them consider whether we ought . . . to give other nations further time to perfect their restrictive systems of commerce, reconcile their own people to them, and to fence, and guard, and strengthen them by all those regulations and contrivances in which a jealous policy is ever fruitful.

"But if, for the reasons already mentioned, and others that we cannot now perceive, the new convention, instead of producing a better plan, should give us only a history of their disputes, or should offer us one still less pleasing than the present, where would we be then?

"Consider, then, how weighty and how many considerations advise and persuade the people of America . . . to have confidence in themselves and in one another; and, since all cannot see with the same eyes, at least to give the proposed Constitution a fair trial, and to mend it as time, occasion, and experience, may dictate."

The State of Trade and Industry

(Continued from page 5)

take title to his steel at the mill. Should he choose to divert it, the mill has no check on its destination, and critics of the industry who contend that steel companies should police their sales against gray marketeers, will now have a difficult time making their arguments ring true.

All of this gray market activity dashes cold water on those who looked for easier steel supply by now. Detroit reports two big plants closed this week for lack of hot and cold-rolled sheet steel. And another automaker has given uneven steel supply as one reason for boosting prices, this trade paper notes.

Though sheets have given way to pipe as the prime gray market item their prices are still terrific. Prices on prime quality gray market sheets are running at least three times mill quotations. Hot-rolled pickled and oiled sheets are quoted in the Midwest at prices up to \$275 a ton with cold-rolled at \$340. Between the extremes there are a variety of other prices.

Some mills have not opened their books for the fourth quarter because they are uncertain of the precise tonnages that will be siphoned off under "must" programs, but most steel users might as well prepare if they can for a 3½% to 5% cut in their fourth quarter quotas—that much is virtually certain. Twice as much steel is now moving on government orders as moved last Spring, and the fourth quarter will bring cutbacks for the average consumer goods producer, "The Iron Age" adds.

Steel executives were privately pleased with July freight car production of 8,706 cars, about 1,000 more than well informed observers had hoped for. A relatively poor month was anticipated because about 90% of the freight car shops either had vacations or staggered operations during the month. One of the major builders which accounted for 1,200 of the 10,381 cars delivered in June was out of action from July 2 to 19, and, concludes this trade authority, industry observers look for 10,000 or more cars for August.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 94.9% of capacity for the week beginning Aug. 9, 1948, an increase of 0.7 points, or 0.7%, from last week. A month ago the indicated rate was 90.8%.

This week's operating rate is equivalent to 1,710,500 tons of steel ingots and castings as against 1,697,900 tons last week, 1,636,600 tons a month ago, 1,630,900 tons, or 93.20% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT MODERATELY LOWER FOLLOWING THREE-WEEK RISE

The amount of electrical energy distributed by the electric light and power industry for the week ended Aug. 7, was 5,319,409,000 kwh., according to the Edison Electric Institute. This was a decrease of 33,030,000 kwh. below the output in the preceding week and 445,237,000 kwh., or 9.1% higher than the figure reported for the week ended Aug. 9, 1947. It was also 907,692,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS ADVANCE SLIGHTLY FOR WEEK BUT ARE BELOW CORRESPONDING PERIODS IN 1947 AND 1946

Loadings of revenue freight for the week ended July 31, 1948, totaled 894,381 cars, according to the Association of American Railroads. This was an increase of 11,815 cars, or 1.3% above the preceding week, but a decrease of 27,210 cars, or 3% below the corresponding week in 1947 and 4,010 cars, or 0.4% below the same week in 1946.

AUTO PRODUCTION EASES FURTHER IN LATEST WEEK

Production of cars and trucks in the United States and Canada dropped to 110,313 units from 113,270 (revised) units the previous week, according to "Ward's Automotive Reports."

Output in the similar period a year ago was 79,452 units and, in the like week of 1941 when model changeovers were taking place it was 41,795 units.

This week's output consisted of 82,000 cars and 26,948 trucks made in the United States and 910 cars and 455 trucks made in Canada.

The agency predicts that the present total of about 50,000 automotive plant workers idled by supplier strikes will rise sharply the current week with a shutdown of Chrysler's passenger car divisions likely by the middle of the week because of the Campbell, Wyant & Cannon Foundry Co. and New Haven Foundry Co. strikes.

Ward's revised figures for July output are 358,762 cars and 115,911 trucks for the U. S. and 9,539 cars and 5,134 trucks in Canada for a total of 489,346 units in both countries. The June figure was 458,960 units.

BUSINESS FAILURES CONTINUE TO CLIMB

Commercial and industrial failures in the week ending Aug. 5 were at the highest level since February, Dun & Bradstreet, Inc., reports. Concerns failing rose to 116 from 98 in the preceding week and were almost twice as numerous as in the comparable week of last year. Total failures were slightly less than half as numerous as in 1939.

Failures involving liabilities of \$5,000 or more predominated, numbering 97 compared with 87 a week ago and 49 a year ago. The number of small failures with liabilities under \$5,000 increased from 11 to 19, but continued to be low in comparison with prewar years.

Retail failures were 57 this week compared with 43 in the preceding week, being higher than in any week since early 1943 and more than twice that of the comparable week in 1947.

Geographically, one-half of the week's total failures were concentrated in two regions; the Pacific States reported 30 casualties and the Middle Atlantic 26. Although most other areas had heavier mortality than in the preceding week or in the corresponding week of a year ago, none had as many as 20 failures. The sharpest rises above the 1947 figures occurred in the New England, the East North Central, the East South Central, and the Pacific Regions.

FOOD PRICE INDEX SHOWS STEADY TONE FOLLOWING SHARP DIP IN PREVIOUS WEEK

Following the sharp declines that occurred a week ago, the Dun & Bradstreet wholesale food price index for Aug. 3 registered \$7.18, unchanged from the previous level. This compares with \$6.57 on the corresponding date a year ago, or an advance of 9.3%.

Commodities moving upward during the week included sugar, milk, cottonseed oil, raisins, prunes, steers, hogs and lambs. On the down side were flour, wheat, corn, rye, oats, barley, beef, hams, lard and beans.

WHOLESALE COMMODITY PRICE INDEX CONTINUES RECESSION OF PRECEDING WEEKS

Wholesale price movements were irregular last week, with continued weakness in grains and cotton outweighing advances in livestock and metals. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., finished at 280.84 on Aug. 3, down slightly from 281.45 a week ago, but still above the 269.03 recorded a year ago.

Leading grains showed further marked weakness for the period as a general wave of liquidation hit all markets.

Wheat declined sharply under pressure of heavy marketings of new wheat for which storage space was unavailable.

The May wheat option fell to around \$2.23 per bushel, or 6 cents less than the government loan figure. Corn fluctuated irregularly and closed sharply lower, reflecting the prospect that this year's corn crop will be the largest on record. Flour prices were easier in sympathy with the drop in wheat. Export demand for flour was restricted to Latin-American countries while domestic bookings quieted down following the expanded activity of previous weeks. Spot cocoa prices remained steady although the demand for actuals was slow and spotty.

Raw sugar prices firmed up under the impetus of a record movement of refined into consumer channels and a heavy world demand.

Livestock markets were firmer. Hog prices at Chicago rose to a new all-time high of \$31.10 per hundredweight, reflecting a seasonal falling off in receipts in the face of continued heavy demand. Cash lard was firm but all future deliveries except the September contract fell to new seasonal lows under heavy liquidation that continued throughout most of the week.

After rising slightly in the early part of the week, cotton prices again moved downward.

The New York spot quotation closed at 33.05 cents per pound, down 85 points for the week and comparing with 35.20 on the corresponding date a year ago. Activity in the ten spot markets increased slightly to 59,100 bales during the latest week, from 55,700 a week earlier, and 53,500 in the same week a year ago. Early strength resulted from short covering by professional traders who bought the staple in the hope that early foreign fixations were about to start. Bearish influences in the latter part of the week included the continued spread-out buying policy under the ECA program and the issuance of the government's parity report which showed no change in the parity price for cotton from mid-June to mid-July. The quotation remained unchanged at 31.12 cents, whereas a rise of from 25 to 38 points had been generally expected in the trade. Print cloth prices continued to hold firm for both nearby and forward deliveries.

Business in the Boston raw wool market showed little activity last week. Seasonal slackness continued in evidence and trading consisted mostly of scattered small lots. Activity in the Argentina market declined slightly from previous weeks but prices remained at a high level.

RETAIL AND WHOLESALE TRADE REFLECTS HIGHER DOLLAR VOLUME FOR WEEK

While retail dollar volume increased somewhat above that of the previous week, unit volume declined slightly in many lines during the week, Dun & Bradstreet, Inc., reveals in its latest review of trade. An increasing number of consumers restricted their purchases of higher priced merchandise and inventories in some lines rose slightly.

Very favorable response to some further mark-downs of seasonal goods and increased prices of some staple goods sustained retail dollar volume considerably above the level of the corresponding week a year ago.

Promotions of Fall apparel met with increased consumer interest in some parts of the country last week. There was a moderate demand for women's suits and fur-trimmed coats. Purchases of fur coats fell slightly below those of the corresponding week a year ago. Promotions of college and career girl fashions were well received. Dollar volume in men's apparel decreased from both the previous week and the corresponding week of last year.

Building activity remained near peak levels a week ago, but the demand for lumber, hardware and building supplies of almost all types was very high. Farmers continued to seek moderate quantities of equipment and supplies. Fishing and camping goods sold well, while demand for furniture and household goods decreased slightly.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 5 to 9% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England, 3 to 7; East, 1 to 5; South, 4 to 8; Middle West, 5 to 9; Southwest, 8 to 12; Northwest, 6 to 10, and Pacific Coast, 2 to 6.

Wholesale order volume was almost unchanged in many regions during the week. Total dollar volume was moderately above that of the like week of last year. Many buyers remained cautious of price developments and were hesitant to place large orders for future delivery. Current re-order volume for seasonal goods continued to decline the past week. Deliveries generally remained prompt, with a slight rise in demand for Fall apparel in some localities.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 31, 1948, increased by 7% from the like period of last year. This compared with an increase of 8% (revised) in the preceding week. For the four weeks ended July 31, 1948, sales increased by 5%, and for the year to date by 7%.

In New York the past week retail trade continued seasonally active and consumer response to August promotion sales was fairly good.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 31, 1948, increased 4% above the same period last year. This compared with an increase of 1% (revised) in the preceding week. For the four weeks ended July 31, 1948, sales increased by 1% and for the year to date by 6%.

Problems of Fiscal Policy in Inflation

(Continued from page 8)

lays are out of balance a compensating factor is needed. Certain public or governmental policies may be adopted which will curtail or increase either consumption or investment expenditures, and thus total demand, so as to offset the changes in total level of demand that result as the sum of the myriad of individual choices as between consuming, saving and investing income. Government fiscal policies can compensate the sum of individual and business choices which make up total private demand whenever and however needed.

III.

What are the tools of fiscal policy and how do they work? They are three in number: government expenditures, taxation and debt management.

Just as individual and corporate spending operates to absorb part of the aggregate current income stream, government expenditures contribute their share toward this balancing of total current expenditures against total current income. Yet, this does not mean that government expenditures may not actually be more or less than current government income. Therefore, government expenditures can be used to increase private spending on consumption or supplement it when it appears to be the deficient factor, or to increase or supplement private investment when it seems to lag. Government is in a strategic position to provide this balance because, different from private or corporate business expenditures, its spending is not governed by immediate profit considerations provided there is entailed a socio-economic improvement for the entire community. Government expenditures can, of course, be misused, in so far as fiscal policy is concerned, either by poor timing so that the balance between incomes and spending is not enhanced but worsened, or by being spent on projects not having the desired effects on community spending.

The essential factor about governmental spending as a tool of fiscal policy is that it does not lend itself readily to variation as needed. Budgets are fixed nearly a year in advance of expenditure and the physical task of implementing a policy decision to increase expenditures is so time-consuming as to give expenditures little to no flexibility in meeting changed requirements. It should be pointed out that expenditures on social security benefits and pensions (all types that go immediately to a consumer) will result in more immediate improvement in the effective demand for consumer goods than expenditures on vast capital projects such as dams, highways, buildings, parks.

The second implement of fiscal policy is the government's tax collection. This tool is the least responsive, in total, to manipulation as the factors which finally shape a revenue act are as complex as our country itself and as incidence of certain taxes imposed is not always clearly determinable.

This is not the time or place to indicate the value and limitations in affecting individual and corporate decisions to invest or to spend of the many kinds of taxes imposed or imposable by government. It is sufficient to indicate that the obvious use of the income tax—the principal source of Federal revenue—lies in the ability to withdraw from spending by individuals a greater or lesser proportion of income by the simple process of raising or lowering the entire range of rates, or lowering or raising the exemptions and allowances. Another use that may be made of the tax tool of fiscal policy is to affect private spending or investment by shifting the proportion collected from the lower income to the higher income brackets, and vice versa. In the main, the larger collection from the low income brackets produces a more than proportionate reduction in spending on consumption goods; the larger collection from the high income brackets results in a more than proportionate reduction on the amount saved and spent on capital goods. For our purpose it is important to note that spending may be directly and immediately affected by the existing withholding provisions of the income tax law and by the social security taxes; less immediate effects result from changes in corporation income taxes and excise and tariff levies.

Finally, the last tool, debt management, although dealing only with the residual of the first two, is highly important in that it is not subject to the extraneous considerations involved in gathering taxes or spending the funds and, therefore, can be used more freely to make fiscal policy effective.

One of the aspects of debt management, servicing the public debt, operates on both sides of the income stream: servicing the government debt requires a withdrawal from the income stream of all taxpayers and an addition to the income of those groups holding the obligations. It might be hastily assumed, therefore, that interest paid on the government debt constitutes a mere transfer payment and is unimportant as a tool of fiscal policy. While net interest payments by government are in a sense transfer payments in our national budget, and are so handled in preparing the Nation's Economic Budget, it should be recognized that the use of the income by the recipients differs. Whether interest paid on the public debt will be spent or saved depends in part upon the general level of income of the receivers, the higher the general level of income the greater the disposition to save; the lower the general level of income the greater the proportion spent.

Debt management also is effective as a tool of fiscal policy in channeling increases or retirements in the total debt into either the banking system or into individual hands. The first changes the total money supply, the second directly limits or adds to consumer spending power. Treasury policy in regard to marketable and nonmarketable issues is also of significance in the matter of fiscal policy. The nonmarketable issues are composed of savings bonds sold to individuals and businesses. Such sales directly limit consumer spending power in the same manner as the sale of marketable issues. There is this difference, however: redemption for purposes of spending is subject to somewhat less control by the government in the nonmarketable issues regardless of the fact that the redemption schedule, placing the greatest rewards in the later years of maturity, has a tendency, along with the preliminary requirement of 60 days before any redemption can be made, to discourage the early redemption of these nonmarketable securities.

Also, as a third aspect of the debt management tool of fiscal policy, consideration should be given to the fact that considerable government trust funds today are available for the purchase of government obligations in the market and, conversely, that sums already so invested, provide a supply of government obligations which can be offered in the market in case of need. These trust funds can, in effect, perform certain monetary control operations, supplementing the task of the Federal Reserve System.

Debt management, in deciding the composition of the total government debt as to maturity, has at hand a means of adding to the spending stream at any desired time and of withdrawing from the spending stream a given amount for a short, intermediate or long period of time as it is deemed best.

Finally, debt management, to the extent that it determines the over-all average rate on the interest-bearing public debt, controls the total amount of income which is shifted within the income stream from the whole group to the holders of the government securities. This latter power is not always entirely at the discretion of the Treasury although its degree of control is large. The average rate on the debt outstanding June 30, 1948, 2.182%, substantially over the rate for 1947, 2.107%, probably represents an increase not entirely at the volition of the Treasury.

It is at precisely this point—the debt management phase—that fiscal policy and monetary policy join and where neither one can operate to the fullest extent without the support of the other.

It is also at this point that monetary and fiscal policy are merged today to the extent that monetary policy is seriously hampered in its actions. The long-term government bond market requires support and thus prohibits large-scale sales of securities by the System which are necessary to prevent additions to banks' reserves and the total money supply.

So much for the tools of fiscal policy. We have always had a public debt, but not always fiscal policy using the management of this debt to influence production, employment and price levels.

IV.

What is the history of fiscal policy? It will be of interest to recall certain facts to demonstrate the evolution of fiscal policy to its present-day stature—one even yet of youth and immaturity and, like most youth, not entirely understood.

Before the first World War the Federal tax structure was extremely simple: the personal income tax had been inaugurated in 1913 and a modest corporation income tax had been in effect since 1909. In fiscal 1914 these two sources of revenue yielded—$71 million!! Liquor and tobacco taxes and customs receipts provided the bulk of Treasury receipts totaling $735 million. The budget was practically balanced. The national debt was slightly over $1 billion, mostly held by national banks as backing for their note issue.

Even before our participation in the war, our exports rose and our favorable balance of trade expanded. The payment during the neutrality period was provided by our future allies in the form of gold and the return sale of American securities held abroad. From June 30, 1914 to June 30, 1917, our gold imports exceeded $1 billion; bank reserves grew, loans expanded $5 billion, investments $2 billion; the money supply increased from $4 billion to $11.6 billion. The Federal Reserve System had little control over this expansion as the commercial banks handled the demand for credit from industry, stimulated by demands from abroad, without recourse to borrowing from the System. Its rediscount rates were ineffective. The Treasury actions during this period were of minor importance.

With the advent of World War I the demands of war spending resulted in rising prices because the economy was already going full blast to supply the demands of the allies during the neutrality period and because private consumption could not be curtailed to match the increase in governmental requirements. It has been estimated by the Treasury that 23% of the cost of the war—32% of our own expenditures alone—was met by taxation, the remainder by borrowing. The national debt increased by $20 billion—$4½ billion held by banks, $15½ billion publicly held but financed in part by bank loans which expanded credit as much as direct bank purchases.

Passing over the extremely interesting post-World War I years in which the Federal Reserve was practically powerless up to November, 1919, to counteract the inflationary forces at work in the economy, because it was committed to maintain a low rate on borrowings of banks based on their own government securities or their customers' paper so secured, it is important to note that Treasury policy during this time was simply to cut expenses as rapidly as possible to a peacetime level, to balance the budget at the earliest possible date, and to begin a program of debt retirement. No evidence exists in published statements of policy about the time of the 1921 crash to the effect that the Federal expenditures should be increased, the debt retirement program interrupted, or taxes eased. In fact, the attitude of looking to the Federal Government for help was described by Secretary of the Treasury Houston as unwholesome and menacing in his Annual Report for 1920. Andrew Mellon, who became Secretary of the Treasury in 1921, publicly stated on April 30, 1921, that the ". . . nation cannot continue to spend at this shocking rate . . . this is no time for extravagances. The nation's finances are sound . . . but it cannot afford reckless or wasteful expenditure."

This basic policy did not change during the 'twenties. The fiscal policy of the Republican party, not primarily concerned with fluctuations of economic activity, was four-fold: a balanced budget, continual debt retirement, economy in government, and reduced taxes. The long-run economic effects of fiscal policy were considered, but its influence on the business cycle was not recognized.

This is not to imply that the program followed was inappropriate to the circumstances. On the contrary, it was probably good fiscal policy for the most part from 1922 to 1929 for the government to make a negative contribution to income. The important aspect is that an understanding of fiscal policy as a contributing factor toward economic stability and fuller use of our resources was lacking.

With the coming of the Great Depression the Federal Government developed, broadly, its concept of fiscal policy. The Treasury deficits which contributed to the spending stream were resisted strongly but ineffectually at first. Even Mr. Roosevelt in his campaign in 1932 criticized the Republican incumbent for not recommending increased taxes earlier, for not cutting expenditures further, and for failing to balance the budget. Later, when established in office, Mr. Roosevelt worked out a concept of the government's role in our economy which differed sharply from that which had guided government fiscal policy up to that time: namely, the adherence to the gold standard, to the balanced budget and to the belief that a vast program of government relief would mean the end of freedom and that liberty was abandoned. In fostering the belief that the government must take the responsibility for the relief of involuntary unemployment and the responsibility for action effecting business and agricultural recovery and maintaining stability and employment thereafter, the use of fiscal policy implements was developed. Deliberate influence on consumer disposable income was brought about by manipulation of government expenditures and the effort was clearly made to supplement waning private investment with public investment.

From the record of the revenue acts passed from 1933 to 1939, there was, however, no apparent attempt made to correlate the impact of taxes imposed on individuals and corporations with fiscal policy requirements. In 1933 the taxes imposed added to the burden of the existing, regressive consumption taxes; in 1934 the changes added even more to the taxes paid by the lowest income group, increased slightly the taxes on the upper brackets, and eased somewhat the load on those in between. In 1935 and after, immediate social reform rather than fiscal purposes dominated. The social security taxes effective in 1937, lowering somewhat disposable income of consumers at the very time when business expenditures had been unfavorably influenced by corporate tax changes in 1935 and 1936, may have been significant factors in the 1937 recession, unbalancing aggregate expenditures and income.

Nevertheless, it seems fair to say that by 1938 there existed a recognition of the important part government spending, tax policies and debt management played in maintaining the balance of income, spending, saving and investing in our economy. This recognition constituted a major advance over the level of understanding that existed before and, as will be indicated shortly, was of vital importance in subsequent years.

In the period of World War II, fiscal policy was focused on the single task of getting the job done. No extended review of this period is needed. The net results in the form of a $280 billion Federal debt, at the high point of February, 1946, and in the form of peacetime budgets of $40 billion and over merely provide the starting point for the analyses of proper postwar fiscal policy and do not indicate significant changes in either the understanding of fiscal policy or in the implements effectuating it.

The present-day situation does present this contrast with the situation existing during the period from 1933 to 1941. Fiscal policy developed historically as a means of fighting depression, a lack of a high level of demand. Today fiscal policy is seeking to restrain total demand and consumption demand particularly. The ability of fiscal policy to operate as a stabilizing force is being emphasized.

V.

What are the principal characteristics of this present-day situation? The first consideration in analyzing the postwar period to date is to recognize the tremendous size of the Federal debt, the growth in the annual servicing cost, and the increased proportion that Federal activities and debt represent of all activity and indebtedness in the United States. When the Federal debt was about $1 billion and the annual expenditures $¾ billion, the dog wagged his tail; today we can't find the dog. Federal, State and local governments' payments to and receipts from the public amounted in 1939 to about one-sixth of the Gross National Product; in 1947 they approximated one-fourth. In 1914 the per capita Federal Gross Debt was $12.00; in 1947 it was $1,800 and at the peak in 1946 was over $1,900. In the 1920s Federal, State and local debt, totaling something over $30 billion, was less than 20% of all public and private debt. Today the total Federal, State and local debt amounts to about ten times the 1920 figure, or $300 billion, and comprises 60% of all debt. Two decades or so ago, U. S. Government bonds constituted one-eighth of all banks' assets: today the proportion approximates one-half. Likewise, the rate of interest paid

by the Federal Government in the 1920s was influenced by the rate on private debt; today the rate paid by the government is a determining factor in the cost of private capital. Finally, the pre-Great Depression Federal debt was a small fraction of the annual Gross National Product; today the debt exceeds this Product. Because of the growth indicated in the share of government activity and the growth in its proportionate share of all debt, the economic considerations involved in managing the debt, in spending government funds, and in collecting its taxes are proportionately greater than ever before. Sound fiscal policy is more important than ever before.

It is encouraging, then, to have a former official spokesman for the Treasury indicate a full realization of the great importance of fiscal policy in a public address with these words: The growth in size and relative importance to all debt are ". . . unmistakable evidence of the . . . compelling necessity for such (public debt) management to be directed not merely to the financial considerations of the government itself, as important as they may be, but to the effect of such management on our entire economy."[1] It is also encouraging to have Mr. Snyder, the Secretary of the Treasury, emphasize the importance of fiscal policy today in this quotation taken from his statement before the House Ways and Means Committee, May 19, 1947, with reference to a comprehensive study of the tax system: "I believe that a sound tax system should meet the following essential tests: The tax system should produce adequate revenue. It should be equitable in its treatment of different groups. It should interfere as little as possible with incentives to work and to invest. It should help maintain the broad consumer markets that are essential for high-level production and employment." Finally, it is encouraging to know that President Truman and his Council of Economic Advisers are also cognizant of the importance of fiscal policy in today's economic situation, as the second annual economic report of the President Jan. 14, 1948, so clearly indicates with these words: ". . . the fiscal policies of the government, such as taxation and debt management, need to be so contrived as to afford maximum incentives to production and to improve the balance within the economic system generally."

As a second consideration it should be observed that, in general, the balance in our economy is a delicate one and prohibits the testing of more theories as to what might happen if certain fiscal policies were adopted. On the other hand, where general agreement exists as to what to do, the policies should be carried out courageously.

Next, it is apparent that employment, production and general business activity cannot be stimulated by "pushing the string" of fiscal policy. The lack of private response to pump-priming after the Great Depression and the failure of monetary action in 1932 to secure effective use of artificially increased bank reserves indicate that fiscal policies alone will probably not get the machine going again if it bogs too far down.

It is fairly certain, on the contrary, that the three implements of fiscal policy can check aggregate spending and keep it in sight of the supply of goods available (i.e., total income for the economy). In other words, as in monetary control, the string can be pulled.

It is clear that the imbalance today arises on the expenditure side of the balance sheet. Inflationary pressures are likely to rise because of increasing governmental expenditures for foreign assistance and an expanded defense program.

These, then, are the principal facts in regard to the present situation as the remainder of 1948 unfolds and 1949 presents its unsolved problems.

VI.

What tools of fiscal policy should be used and how? All three tools should be used. The amount of taxes bearing most heavily on consumption should be increased equitably. The principal problem of the present situation, with production at near-maximum levels and not susceptible to extensions of capacity in the next six to 12 months, is one of curtailing or deferring consumer expenditures. Inflation enforces this curtailment in the most inequitable way. The very essence of fiscal policy is to distribute this curtailmant equitably over the community.

The use of the tax tool to accomplish this curtailment or deferment must, however, be exercised with care for two reasons. First, there is considerable evidence that veterans living on pensions, numbering three million, and social security beneficiaries two million, are today comprising the lower 20% of our income group, in contrast to marginal farmers and unemployed who formerly dominated this group. The $1\frac{1}{2}$ million individuals and 7 million families of two or more making up this group in 1946 received but 4.4% of the total civilian money income and have already lost a considerable portion of their effective buying power due to the rise in prices to date. This group has already been forced to make its contribution to the needed saving simply by being priced out of the market. Secondly, the tax tool should be used carefully in restraining or deferring income because there are today soft spots appearing in the consumption picture as a result of the inflation that has already taken place, and tax programs are not usually quickly adapted to changed requirements.

With due consideration of these two factors, it would seem safe to say that income taxes should be restored to the levels existing before the recent cut, and preferably the restoration should be by the present extra session so that it can bring its pressure on the 1948 incomes. The excess-profits tax, requested by the President in his message, would undoubtedly have the effect of reducing corporate outlays on capital goods both by absorbing a part of corporate income ordinarily available for reinvestment and by decreasing the attractiveness of the return on corporate securities. On the other hand, with incomes under $50,000 exempt, the tax would not reach the vast majority of corporations. Further, the excess-profits tax is considered primarily a wartime expedient: witness the repeal of the World War I tax on Jan. 1, 1922 and the repeal of the last war's tax almost immediately after the close of the war. The adoption of an excess-profits tax in peacetime is doubtful. Some consideration might be given to raising the contributions on social security taxes at this time provided a cost-of-living exemption could be simultaneously added to the lowest income tax bracket in the revision of the income tax. Suggestions have been advanced for forced savings tax levies on income which could be refundable at some subsequent year as a direct credit against the subsequent year's income. It has also been suggested that another way in which the tax tool of fiscal policy could bring its pressure today on consumption expenditures is to allow as an exemption on the income tax full credit for all current income saved or invested and not spent on consumption goods. These last two suggestions are offered without comment other than the thought that technical problems involved in the administration of the income tax should be the deciding factor in the decision to change the tax program to conform to them. As indicated before, tax programs being the hodge-podge of conflicting interests that they are, action is not usually timely and in this election year is probably impossible. Nevertheless, a fair appraisal of the fiscal policy tools to be used in the present situation cannot side-step the urgent need for a tax to dampen consumption expenditures.

The spending by the government should be restricted to absolute minima in other-than-defense domestic expenditures. Wherever possible outlays for long-term capital improvements should be postponed. Government guarantees and subsidies having the effect of direct government expenditures should likewise be restricted.

Debt management, with the residual developed by the strengthened tax program and the curtailment of spending, should continue to be directed at the retirement of bank-held debt, particularly that held by the Federal Reserve banks, as the reduction of Federal Reserve bank-held debt directly reduces member bank reserves.

Even without any residual surplus being developed by the first two tools of fiscal policy, the debt management phase, or tool, should continue its efforts to absorb current individual and corporate income, thus preventing the full amount of the incomes from returning to the spending stream, by promoting the sale of savings bonds to individuals and business concerns other than commercial banks. In this connection there has been considerable discussion of the suggestion to increase the sale of bonds by increasing the long-term rate of interest, enabling the Treasury to pay higher rates and to attract more of current income to investment in savings bonds. Such a suggestion does not appear workable at this time. The lack of saving is due to the pent-up demand for consumers goods and housing rather than a lack of attractiveness of investment opportunities. Saving is not so much a function of the rate of return paid to savers as it is a function of the level of income. It is doubtful, in other words, that appreciably more sales of savings bonds could be effected at a rate of $3\frac{1}{2}$% or 4% than at the present rate of 2.9%. Further, if the increase were allowed in the marketable issues, the avalanche of selling of $2\frac{1}{2}$% bonds whose holders anticipated even further declines in market prices might disorganize the entire securities market. Finally, the cost of servicing the $250 billion debt would be increased somewhat and unnecessarily.

The interesting suggestion was made by Professor Sumner Slichter of Harvard University last April 1, 1948 that the time has probably come for the Treasury to offer a savings bond which is payable in a fixed amount of purchasing power and which, to protect the savings banks, should be limited to $2,000 in individual purchases per year. It suffers from the same objection as that to raising the rate of return directly, viz., it is questionable how much more current income would be diverted to savings as a result of greater inducements until the backed-up demand for consumer goods has been satisfied. Switches into this form of savings bond would no doubt approach the maximum permitted. The question is how great would be the pull on current income. (More effective would be the reimposition of consumer credit controls and a shortening of the term and an increase in the required down payment on instalment sales, but this lies beyond the scope of fiscal policy.)

VII.

The greatest need in fiscal policy today is to secure an understanding of and the adoption of sound fiscal policies at the state and local government level. Here it seems that the individual or business viewpoint dominates. The state and local governments follow in many cases tax policies and spending programs that appear similar to those adopted by the Federal Government during the 1920's. Their objectives are limited to balanced budgets, efficiencies in operations, and debt retirement—all very worthy objectives. Yet the importance of the timing of their collective expenditures and the impact of their collective budget surpluses on the whole economy is not always understood. Today many excuse their expenditures on the ground that the market for their borrowings is good. If there were some leadership—not laws, leadership—at the Federal level to point out the proper timing, to supply the missing objective of proper fiscal policy to the state and local governments, the next major step forward in the development of fiscal policy as a significant help in maintaining high levels of production and employment could be taken.

VIII.

Finally, it should be borne in mind that fiscal policy to be sound must look ahead. It should be directed at all times toward the development of our natural resources, our human resources, our capital, and a high production economy. The goals that appear before us if our tremendous capacity to produce is not hampered but aided by proper fiscal policy are almost unbelievable. Our growing population and our improving use of resources should give us by 1960 four to five million students in institutions of higher learning, 15 million people—9% of the population—eligible for and receiving old-age security benefits, and physical capacity to produce 25% more than we have today. The goals are indeed worthy of our efforts.

General public understanding or at least acceptance, is needed to make Federal or state or local government fiscal policy effective. It would seem that each of us could make some contribution in that direction in our own communities in the next six months if the need for the effort were clear. Let us look at the record of the second session of the 80th Congress to see just how great is the need for an enlightened public understanding—as it is the only force bringing response from the Congress. The tax reduction, **voted because there was a surplus,** and the bookkeeping transfer of $3 billion of the 1948 surplus into the 1949 budget indicate quite obviously a lack of full understanding of proper fiscal policy. Worse, they indicate a reversion to the 1920-29 grasp of the problem which visualized the Federal budget as that of a large private business ignoring its unique responsibilities toward the functioning of the entire economy. Here, then, in Congress, where mere acceptance of what recognized leaders say is proper fiscal policy is not enough, where just understanding of the proper fiscal policy is not enough, where timely action based on proper fiscal policy is essential, the record indicates a reduction of taxes in the face of continuing inflationary pressure. Further and fast public enlightenment is vital.

The foreword to the Proceedings reporting the Third National Forum held here July 28-30, 1947 accurately and wisely states that the ". . . sum total of what we make of our national economy in America is simply what each one of us contributes to the whole." These Forums have always emphasized that ". . . . knowledge and understanding of our economic problems by the people is essential in the success of our democracy."

[1] A. L. M. Wiggins, "Fiscal Policy and Debt Management," in Proceedings of the Academy of Political Science, Prices, Wages and Inflation, May, 1948, vol. XXIII, No. 1, P. 70.

Competition

(Continued from first page)

ago in London. There, at the American Consulate, was Sikorsky, our great plane designer. He was en route to see his brother, a monk in one of the monasteries of the holy Mount Athos in Greece. Both men were white Russian refugeees. Uprooted from their homes and with plans for their lives disrupted, one brother ran away from life, but the other put his wits to work. One was afraid of competition; the other asked for it. And we all know the result.

Psychology and Adjustment

There are certain sensible psychologists who say that a well-adjusted man is one who has learned to take the bitter with the sweet. In short, he learns to adjust to his environment. A look about you will tell you that your environment is highly competitive. God made it that way. That's what he gave us brains for.

Down through the years the creatures which have failed to compete successfully with the forces opposed to them, have given way to those which could meet the conditions imposed upon them. The bones of those who feared competition fill the cemeteries; while the bones of those who have enjoyed competition are found in museums. What happened to the great Inca civilization of South America? Where is the great Pueblo culture of our Southwest? Gone too are the cultures of ancient Athens and Rome. Must we follow these others because we will not compete?

Competition Makes the Full Man

What do you suppose would happen to Joe Di Maggio if the New York ball club didn't have competition? Only the compeition which Henry Ford forced made it possible for lots of us to own cars. The competition between oil companies has given us cheap gasoline to run these cars with. Because no one organization—yet—monopolizes the electric field, we have electric lights in our houses. Not only city homes but the farms too have lights, electrically powered machines in the barns, and electric stoves in the kitchens. Most of the good things we have today we owe to competition and inventors.

Remember those days in the early mid-thirties when we left behind the "Man With the Hoe" and substituted for him "Six Men and a Shovel"? The competitive spirit all but died out in those days. What took its place was no credit to the United States. Certainly as Christians we must—and are willing to—care for those in need. But more of the spirit of Horatio Alger—a little effort to "Strive and Succeed" is necessary to keep America going.

How to Get More

Competition is stimulating. Competition is inspiring. It gets things done. Rivalry is American. Whether we like it or not, we live in a competitive world and a competitive age. Whether manufacturers, merchants, farmers or fishermen, let's prepare our children to take their rightful places in the competition they will have to face. Competition and rivalry make for productivity.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Expect dull August with market backing and filling. Attempts to absorb overhanging stock will meet with early failure. Upward penetration possible end of month or later.

* * *

It's about time to get back to work and stop gassing about things that add up to nothing more than double talk. The special session of Congress has come and gone, and for all the good (or the harm) it did it could have, in the words of the fight manager, "stood home in bed."

* * *

This all leads up to the market, which in the past week seems to have taken a turn for the better. One week's action, however, isn't enough on which to pass judgment. But if that week is considered in conjunction with all that happened prior to the July reaction and including it, a different picture begins to take shape.

* * *

I'm not going into details about this projected picture. It sounds too much like crystal gazing. But I think that between now and the end of the month we will have a zigzag market out of which a rising trend will develop. At this point it would be appropriate to pull out that old chestnut, "buy selected stocks on weakness." The trouble is, what stocks are to be selected, at what prices, and where in this weakness buying is to be done.

* * *

I won't leave you in suspense much longer. I'll give you the names of the stocks I think act well enough to bear watching. You'll notice I say "watching", not buying. I make this distinction because I haven't determined yet where to buy them. This will have to wait until the zigzagging I spoke of earlier in this column, reaches a point of embarkation for the higher figures I think we will see.

* * *

In the meanwhile, however, here is a partial list of stocks that act promising enough. Some of these we've had before; others are new (new to this column).

* * *

The stocks are the following: Allegheny Ludlum; American Smelters; Caterpillar Tractor; Armco Steel; Babcock Wilcox; Colorado Fuel; Commercial Solvents; Continental Oil; Electric Storage Battery; Ex-Cell-O; Glidden; Paramount; Phillips Petroleum (in fact all the oils look higher) and U. S. Steel.

* * *

In some stocks the buying point seems to be right around current levels. Examples are Allegheny Ludlum; Armco; Babcock and Wilcox; Colorado Fuel and Commercial Solvents. In others it seems to be anywhere from 3 to more than 5 points under current prices. This condition makes the placing of stops too hazardous for comfort. So until we see another downsweep we'll just have to sit by and watch. When the reaction comes, or I think it will come, I'll try to give you the specific prices at which to buy and equally specific ones where to stop them.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Our Role in World Affairs

(Continued from page 13)

varying emotional tides and partisan politics.

We have no plan for China, which is the central problem of Asia. Our Secretary of State, after a careful study on the spot, declared that we should discontinue our subsidies to the Central Government of Chiang Kai-shek and maintain a hands-off policy in the struggle between it and the Chinese Communists. Yet our Congress decided to vote an additional subsidy to Chiang amounting this year to $500,000,000, and the Republican candidate for the Presidency favors still greater subsidies.

Our planlessness goes still further. **Not only are we without a plan for making the peace; we are also without a plan for preserving the peace once it is made.** Our government takes the position that the United Nations, as at present constituted, is an instrument capable of preserving the peace. It opposes any change in its structure. Yet our government's own proposal for the control of atomic energy clearly implies that the present United Nations structure is wholly inadequate and will remain inadequate until the United Nations is built into some sort of World Government capable of enforcing world law.

The conclusion from the foregoing seems to me inescapable. The world is correct in thinking of the United States as a nation which, in spite of its great power and its desire to help make and maintain the world's peace, is nevertheless without a plan for peace.

2. Are We Unreasonably Motivated by Fear?

The second point for us to examine is whether the world's impression is correct that, in spite of our relatively secure position, we are unreasonably motivated by fear.

There can be no doubt that we are motivated by fear — fear of Russia, fear of communism and fear of war. The question is whether we are **unreasonably** afraid, or whether our fears are well-grounded.

The answer is, I think, that our fears are partly exaggerated, partly misdirected, and wholly out of proper proportion. Let me briefly develop each part of this threefold assertion.

Our fear of Russia, as a nation—that is, our fear of Russian attack—is, I think, exaggerated. We have no common frontier with the Soviet Union. We can reach each other only by air or by sea. Our Navy controls the world's seas; Russian submarines could interfere with our seaborne movements; but Russia lacks the means, which we possess, of transporting a striking force across either ocean. As for air-power, we hold a lead in long-range bombers; we have bases around the periphery of the Soviet Union; we have atomic bombs. Even assuming that Russia, too, has atomic bombs, there are no Soviet bases in Mexico or Canada or Greenland which correspond to our bases in Japan, Britain, North Africa and the Middle East. Furthermore, there is no evidence whatsoever that Russia's interests would be served by war. There is no evidence that the Soviet regime — which might conceivably act contrary to Russia's interests —is at present thinking in terms of military attack either upon us or upon any other nation. Yet—oddly enough—we seem to be more afraid of Russia's attacking Western Europe than the Western Europeans themselves.

What about our fear of communism? This, I think, is not exaggerated but misdirected. What we fear most are the revolutionary or subversive techniques of communism — "the imposition from within or without of totalitarian dictatorships." What we should fear are the social and economic conditions anywhere in the world which make the application of these techniques possible.

Because we emphasize the purposeful Soviet exploitation of these conditions, and often lose sight of the conditions themselves, our fear of communism becomes indistinguishably merged with our fear of Russia as an aggressive nation. This confuses our thinking and leads us to play into the hands of both communism and Soviet imperialism. It leads us in China to back a regime of corrupt and oppressive landlords against the peasant masses, thereby handing the Chinese Communists a monopoly in exploiting the most powerful magnet of political attraction. It leads us, in Germany, to oppose socialism and to restore to power the remnants of the old monopolistic clique. It leads us to coddle Franco in Spain, and to deal delicately with the petty potentates of the Middle East. Here at home it leads us into anti-communist witch-hunts and increases internal tensions of all sorts. All this is made to order for those who seek to persuade the oppressed and unhappy peoples of the world that communism offers the only road to a better future while, at the same time, they seek to convince the ruling cliques that an alliance with the Soviet Union provides the only guarantee of "national independence." The latter myth is now beginning to be exploded in Yugoslavia.

Apart from being in some respects exaggerated and in others misdirected, the most important thing about our fears is that they are althogether out of true proportion to the actual dangers. At present, we seem to fear Russia most, communism second and war third. The order should, I think, be reversed.

By far the greatest danger we face is war. Even a victorious war would destroy more of the things we rightly value than could possibly be destroyed without war by Russia and Soviet-inspired communism.

This is the outstanding new fact of our time, to which we are partially binded by the thought—attractive to some of our present leaders—that, if all else fails, we could almost certainly win a physical struggle with the Soviet Union.

This is what terrifies not only the Russians but our friends throughout the world. This is what makes us—even to those who do not question our good intentions—a dangerous element in world society—an irresponsible, good-natured drunk wandering about in a crowded market-place with a loaded tommy-gun in his hands.

To be sure, it would be much more terrifying to most of the world if Brother Ivan, rather than Uncle Sam, were wandering around in this condition. Brother Ivan is less likely to be good-natured when drunk, and more likely to loose off his weapon just to see what would happen. Nevertheless, it is Uncle Sam who holds the weapon today and who, every now and then, seems not too careful about how he handles it.

The conclusion seems indicated that we are unreasonably motivated by fear—partly because our fear of Russia is exaggerated, partly because our fear of communism is misdirected, but most of all because we fear too little the danger we should fear most.

3. Are We Bunglers?

This brings us to the question of bungling. Are we, as the world seems to think, lacking in skill and know-how in our behavior as a nation among nations?

It would not be difficult to present a damning indictment against our present leadership in recent months. Palestine — the Bedell Smith fiasco—many of the impromptu utterances of our President are sitting ducks if one is looking for targets. So are the actions of our Lower House in passing a resolution inviting Franco into the ERP, in sabotaging the Reciprocal Trade Agreements Act and in slashing the ERP funds. All these things add up to a far from pleasant picture. The blame falls upon the White House, the State Department, the various and sundry Presidential advisors and upon both Parties in Congress. It falls upon the Third Party candidate. It falls upon the press. It falls upon all groups and individuals who have contributed to the confusion by losing sight of the world woods for seeing only their particular parochial trees. In the last analysis, the blame falls upon all of us as citizens, because the picture we present to the world as a nation is a fairly accurate picture of the confusion which exists in our own minds.

In this respect, however, I venture to doubt whether any of our friends abroad have the right to criticize us. What nation has not bungled? What government has pursued a consistent course? What people is less confused than the American people?

The fact is that the whole world is living in the same glass house. The fact is that mankind has come to a point in its history at which the old techniques of adjustment within and among nations have become wholly inadequate, so that new techniques must be developed or invented.

The price of man's continued existence upon this planet is the universal recognition that the brotherhood of man is no longer merely an ethical or religious concept but a pragmatic fact. This recognition cannot be accomplished by governments unless it is first accomplished by peoples. The techniques of adjustment in a world community, which recognizes itself as being a world community, can be developed. There can be no effective techniques of adjustment for a world which is one, but refuses to recognize its existing unity.

We are, I think, no worse and no better—so far as bungling is concerned — than the world we live in. Others may be more skilled in that official chicanery which goes by the polite title of diplomatic intercourse. Others may have structural forms of government which lend themselves to faster and more consistent action. But all this is beside the point. What hampers us most is not our lack of skill and know-how, nor yet the structural form of our government. Both could be improved without doubt. **But what really hampers us is the fact that we have not yet fully comprehended the changed nature of the world in which we live—that we are afraid and resentful of the change to which our own discoveries have so largely contributed.**

Thus, our effect upon the world is that of a man who has bought a new car and takes his family for a ride in it before he has learned how to drive. He starts off proudly, enjoying new respect and admiration. As he begins to realize that he does not know how to control the bright new contraption, he becomes afraid. His fear transmits itself to the passengers. When he meets a road-hog and, partly through his own lack of skill, narrowly misses a collision, he curses the other driver. Eventually, the entire family joins him in screaming abuse at other vehicles and even at pedestrians. The whole street is gripped by panic.

In the eyes of the world, Russia is a selfish road-hog driving an ancient jalopy—or perhaps even a team of horses—stolidly and ruthlessly down the middle of the road. The United States is the man in the new streamlined roadster who doesn't quite know how it works.

II. What Can We Do About It?

So much for our present role in world affairs. What can we do about it? How can we make ourselves more effective in helping to make the peace? How can we make ourselves more effective in helping to build the structure to preserve it?

Fully aware that there is no easy, quick answer to the world problem, let me nevertheless suggest to you **three major lines of endeavor which, combined, might lead toward a solution. The first has to do with domestic policy, the second with making the peace, and the third with preserving it.**

1. Domestic.

A nation's foreign policy inevitably reflects that nation's domestic state of mind and health. We cannot be an element of strength if we are weak, an element of order if we are disorderly, an element of stability if we are unstable.

The true measure of a nation's strength is not to be found in the number of its planes, atomic bombs, battleships and infantry divisions. The measure of a nation's strength is to be found in the health, the education, the housing and the full employment at fair wages of its people. Put it in other terms, the ultimate strength of a nation depends upon the solidarity of its people, which

in turn depends upon the degree to which all its citizens feel themselves justly treated.

The true measure of orderliness is not the absence of change, but the degree to which change is permitted constantly to occur without violence.

The true measure of stability is not the maintenance of one particular state of equilibrium, but the maintenance of an equilibrium in spite of a constant shifting of the conflicting forces.

In order to permit our foreign policy to reflect a healthy, strong, orderly and stable society, we have many things to attend to here at home.

We are now spending $15 billion a year on rebuilding that military strength which we so irresponsibly dissipated three years ago. We need to re-examine this figure in the light of what military strength we really need, in the light of what we can afford to spend altogether, and also in the light of what we are investing in the health, education and housing of the American people Three billion dollars — one-fifth of the amount we are spending on preparing for war—would assure every American citizen of adequate medical and dental care and send every American child through high school, plus one-half of them through two years of college. A fraction of our expenditures for planes and ships and guns would overcome the disgraceful shortage of adequate low-cost housing.

We need to take a look at our runaway price level and to recognize that a continuation of our present dearly-beloved donothing policy will not only make hash of all our plans for promoting world recovery but will also drive us into another one of our so-called cyclical depressions.

Finally, we need to find **some** way—whether through state or Federal action—to remove from our national prestige the blot of **racial discrimination.**

These are all things which are generally considered remote from foreign policy but which nevertheless have a direct bearing upon it.

2. Making the Peace.

The second line of endeavor has to do with helping to **make** the peace. Here we need to reexamine our present fears, to range them in proper perspective, and to develop a positive program of action in place of panic-inspired negative and often self-defeating counter-action. Next, we must fit into our overall plan a specific policy for each of the many individual problems of the peace settlement.

Once we see war, rather than Russia, as the predominant danger, we shall begin to change the present relationship between the money and effort we are putting into the two contradictory elements in our foreign policy. Instead of spending $6 billion a year to promote world recovery and peace, we shall probably spend considerably more. Instead of spending $15 billion a year on getting ready for war, we shall probably spend considerably less.

This is the most important change we need to make in our overall policy. I should like, however, to put forward one other tentative suggestion.

I can think of no better way to arrest the present drift toward war than to eliminate Europe as a bone of contention. At present, Europe is divided into an Eastern half, completely under Soviet domination, and a Western half increasingly afraid of communist penetration or Russian attack, and increasingly dependent upon American protection. The major attention of the United States is directed toward blocking Soviet penetration through soundly conceived economic aid and, more recently, through unsoundly conceived military assistance. I say "unsoundly conceived military assistance," first, because no amount of feasible rearmament by Western Europe could stop the Red Army from marching to the Atlantic seaboard; second, because United States aid could not reach Europe in time to stop the Red Army's invasion; third, because the rearmament of Western Europe will place an intolerable burden upon its already overstrained economy; and, finally, because rearmament, especially if it includes Western Germany, is likely to provoke the very attack against which it is intended to insure. **Whatever their present intentions, the Russians are not likely to sit still on the east bank of the Elbe while we assemble a great army on the opposite shore.**

We have recently made an abortive approach to Moscow. When the Kremlin seized upon our somewhat ambiguous invitation to sit down and talk things over, we backed away—probably because our government was convinced that the only thing Moscow wanted to talk about was another Yalta deal — another agreement to stay out of each other's back yards.

Certainly our Government is right in rejecting any further crystallization of the unfortunate spheres of influence created at Yalta.

But why should we not propose a different and more constructive approach? Why should we not propose that Russia, Britain and the United States withdraw all armed forces from Europe west of the Soviet frontier, and sign a treaty guaranteeing the neutrality of the entire European Continent.[1] This, combined with an agreement to promote rather than obstruct East-West trade, would relieve the present tensions and free the European nations from the burden of supporting essentially useless military establishments.

I realize that there are some Americans who will say—and not without reason—that it is dangerous to assume that the Soviet Union would stick to any agreement to keep its troops out of Europe. They might also point out that the evacuated Russian forces could far more easily return than British and American contingents, once they were withdrawn across the Channel or across the Atlantic.

To this I would reply:

First, that, sooner or later, we shall in any case have to believe in the possibility of reaching an agreement that will be kept—or else accept the inevitability of war.

Second, that, by withdrawing our forces from the Continent we should not be giving up an effective physical barrier to a Russian advance, but merely a psychological barrier, which exists because the presence of our handful of soldiers makes it clear that a Red Army advance would start a shooting war. Much the same sort of psychological barrier would be erected by the proposed treaty. Neither with or without their present contingents on the Continent would Britain and the United States be able to prevent the Red Army from over-running Western Europe; they would, in either case, have to embark upon a war to subjugate Russia and once again liberate Europe from occupation.

It is obvious that this proposal involves a radical change of direction in Germany. But the time for such a change seems to me to have come. On June 24, at the meeting of the Foreign Ministers of the Soviet orbit, Russia, for the first time, proclaimed her readiness to end the military occupation of Germany. Prior to that date, the Kremlin had favored an indefinite occupation. Almost two years ago, I put forward a suggestion for a revised American policy with regard to Germany, which involved, among other things, ending the period of full occupation, establishing instead a period of observation and control, and substituting for the four armies of occupation an international police force of highly mobile contingents, strategically located and subject to the call of the Allied Control authorities. At that time, such a proposal seemed utopian because no one believed that the Russians would agree to withdraw their army. Now, however, the Russians themselves have put forward the suggestion. I cannot see that we have anything to lose by being willing to discuss it. On the contrary, it seems to me that the opportunity now exists to break the existing stalemate, to end the idiotic competition for the favor of the Germans by their conquerors, and to establish the beginnings of an all-German Government with which we can eventually sign a peace treaty.

If such an agreement with regard to Germany is reached as part of an overall agreement to withdraw armed forces from Europe and guarantee its neutrality, the key log in the log-jam of world affairs will have been lifted.

3. Preserving the Peace

Having had the temerity to advance a few thoughts on the making of the peace, let me now conclude with some brief comments on the question of **preserving the peace,** once a satisfactory settlement is made.

At the present time, our Government takes the position that the existing structure of the United Nations is basically satisfactory and does not require drastic amendment. On May 5, Secretary Marshall said in his testimony to the House Foreign Affairs Committee:

"The problems today presented to those who desire peace are not questions of structure."

With all due respect, I submit that this is a shortsighted view of the challenge which confronts the world. It is true that the problems of making the peace are not questions of structure. But the problems of maintaining a peace once made most assuredly involve questions of structure.

I submit that the United Nations, as it exists today, is not a structure capable of preserving the peace — even if the present East-West tensions were eliminated. The United Nations, as it exists today, is nothing more than a multilateral treaty between sovereign nation-states. It can function only when and if there is unanimous agreement on the part of the great powers. In the absence of such unanimity, it is helpless.

This defect is not due to the veto; nor is it curable by eliminating the veto. The veto merely makes explicit the basic defect implicit in any international structure which fails to establish an authority over and above the sovereign nation-states.

The only kind of peace which can reasonably be hoped for under the present UN Charter is an uneasy armistice, resting upon a precarious balance of power. In the world of today—in a world of atomic energy— a world in which power has become polarized in only two poles of superpower — the search for a balance of power inevitably becomes a struggle for preponderance of power. Such a struggle necessarily becomes an armament race.

An armament race is dangerous not only because it is likely to lead to armed conflict. The danger of an armament race is also that it tends to make the participants into garrison states, spending more and more of their substance on unproductive effort and increasingly restricting the freedoms of their peoples.

These considerations have for a long time led me to the belief that **there is no way to preserve the peace short of building the United Nations into a World Government.** I began to explore the idea of World Government in a book written in 1939, when the war was still in its early stages. The post-war creation of a United Nations structure based upon great power agreement, seemed to me disappointing, except if viewed as a first necessary step on the road to World Government. Unfortunately, our Government seems more and more to consider that what was accomplished in 1945 is not a first step but a finality. In taking this view, it lags behind the Governments of most of the Western European nations, of many of the countries of Latin America and of all of the nations of the British Commonwealth.

In order to develop a policy to preserve the peace, I suggest that what we need most is to make up our minds that the present UN structure is unsatisfactory and to align ourselves with those who have already declared themselves in favor of converting it into an effective World Government.

This brief statement of a point of view necessarily leaves many questions unanswered. What powers should be delegated to a World Government? How should it be constituted? There is not time to deal with these matters here, but to the limited extent that I am able to supply the answers, I did so in an address entitled "How To Achieve One World," delivered before the Conference of the Society of Friends three weeks ago. Copies of this paper are available to those of you who may be interested.

What I have said today is not likely to make you feel any too happy with the role at present played by the United States in world affairs. I hope, however, that I have not left you with a feeling of discouragement or despair. I have tried not merely to point out what seem to me the defects of our present policy but also to indicate the lines along which we might proceed to cure them. Yet, even if you should think well of the tentative suggestions put forward, I fear that you may go away wondering by what means the average citizen can possibly do anything to bring about their adoption.

The only answer I can give is that, in the long run, our Government is responsive to the will of the people. Every one of us has it in his or her power to learn the facts of contemporary life, to discuss them, to form an opinion and to test that opinion as against the opinion of others. Every one of us has a right to ask questions and demand answers from any of the candidates who will this year present themselves for election to office. **One of the things we ordinary citizens might consider doing this summer is to institute a national "Quiz Your Congressman" Week,** during which each incumbent or candidate would have to stand up and be counted on whatever issues seem important to each constituency.

This much is certain:

If this nation is to become the effective champion of political freedom, its citizens must find a way to educate themselves and each other. They must asume personal responsibility, "Eternal vigilance"—the traditional price of freedom—means more today than mere alertness to danger. It means the conscious effort to understand what is going on in the world, the conscious effort to see the various existing dangers in true perspective, and the concentration of planned endeavor upon the attainment of a clearly seen goal.

In the world of yesterday, it may or may not have been true that God was on the side of the big battalions. In the world of today and in the world of tomorrow—if there is to be a world of tomorrow—God will be found on the side of those peoples who are determined that never again shall this world's streets echo to the tramp of armed men marching into conflict.

Once upon a time, physical strength was the guarantee of survival. Today, the price of life itself is the moral strength to believe in peace, the will to work for peace and the readiness to sacrifice for peace the outworn relics and fetishes of the past.

Geography, geology and technology have combined to make the United States the physical giant among those nations which carry the common heritage of the Judaeo-Christian civilization. But as yet the very newness of our position of preponderant power robs us of clear vision and the ability to take decisive action. What is more, the corrupting influence of great wealth tends to make us materialistic and unduly conservative. **Fear of losing even a little of what we possess blinds us not only to the danger of losing all, but to our greatest opportunity.**

The present role of the United States in world affairs is unworthy of a great people. Our potential role staggers the imagination. Whether or not we fulfill the mission which history has entrusted to us depends upon citizenship more than upon leadership—upon us as a people more than upon those individuals whom we elect to office.

The President of this University recently said that he preferred to devote himself to teaching and preaching in the cause of peace rather than to accept nomination to the highest political office in the land. In making this decision, he has, it seems to me, set us all an example of responsible citizenship.

[1] The idea of neutralizing the Continent of Europe was put forward by Mr. F. Van Rossen Hoogendyk in a letter to the New York "Times" dated May 26, 1948. In this proposal the idea of a three-power guaranty of European neutrality was, however, combined with a plan for the federalization of the Continent. Federalization, if it is possible at all, will require a long time, but the idea of neutralization by three-power treaty does not require federalization and could be made effective by itself in a much shorter period.

Inland Steel Places Bond Issue Privately

Inland Steel Co. on Aug. 3, 1948, negotiated through Kuhn, Loeb & Co., of New York the sale of $20,000,000, aggregate principal amount of its 3% bonds series H, dated Aug. 1, 1948, maturing Aug. 1, 1978, with interest payable semi-annually, on Feb. 1 and Aug. 1. The bonds were sold at 101 plus accrued interest from Aug. 1, 1948, to seven insurance companies who purchased the bonds for investment.

Inland will use the proceeds of the bonds to reimburse the company for capital expenditures made since Dec. 31, 1946.

Wilfred Sykes, President, stated that the capital expenditures for which the company is being reimbursed by the sale of these bonds includes facilities increasing the company's capacity to produce cold rolled sheets, a battery of new coke ovens and a new ore carrier capable of greater tonnages and more trips per season. Mechanization of its coal mining properties and the construction of a coal cleaning plant at its Price Mine, Kentucky are also well under way.

Joins First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL. — Philip D. Thompson has joined the staff of First California Co., 300 Montgomery Street.

The Problem of the Cross-Rates of Exchange

(Continued from page 6)

more than it imports from said country. Summing up:

A: Debit balance with B, credit balance with C

B: Credit balance with A, debit balance with C

C: Debit balance with A, credit balance with B.

Therefore, *in a situation of general equilibrium of the exchange rates and of multilateral trading relations, the bilateral trade balances of the various countries are not in equilibrium*, but each country, makes up for the deficit in its trade balance with another given country, by the fact of having a credit balance with a third country (or several countries if the countries considered are more than three). *If the equilibrium of bilateral balances is assumed as a condition, a general equilibirum of exchange rates becomes impossible*, if other conditions of international economic equilibrium are to be satisfied. In other words, it is possible to imagine a Government, by means of controls, obtaining an artificial equilibrium of its country's bilateral balances at rates of exchange that are not in keeping with the situation of the market (although experience teaches us that enormous difficulties have to be overcome in order to do this); but in that case there will be a lack of balance in other sectors. Returning to our previous example, for instance, let us suppose that, at an exchange rate of 45 units of A's currency for one unit of B's currency, A's inhabitants are ready to purchase goods for the amount of one hundred millions from B. In order to avoid excessive imports, A's government reduces this figure to 50 millions. This will give rise to unsatisfied demands for B's goods in A, which means that exceptional profits will be made by the importers who are in a position to sell the insufficient quantities of foreign goods at high prices.

III

From the preceding example we may also draw the following conclusions: *(a)* in a situation of general balance of the rates of exchange, the exchange between the currencies of any two countries results not only from the trade exchanges between these two countries, but from the total of their trade exchanges with all other countries; *(b) in order to establish a general equilibrium of exchange rates, it is not sufficient for the various currencies to be convertible into one another: multilateral trade transactions must also be possible*. In fact, in the example given above, at the exchange of 45 units of A's currency for one unit of B's currency, A has a deficit in its balance with B. If A could not cover this deficit by means of an excess of exports towards C, it would be impossible for A to keep up the convertibility of its money. The present disorder concerning exchange rates is undoubtedly a consequence of the inconvertibility of currencies, but the real reason at the bottom of this situation is that we are still very far from having re-established multilateral international trade exchanges.

The logical reason why a general balance of exchange rates is incompatible with a bilateral trading system is the following: if a general equilibrium of exchange rates is desired at the same time as an equilibrium of the bilateral trade balances of the various countries, *a set of conditions arise that cannot be simultaneously achieved because their number is greater than that of the quantities (exchange rates) to be determined*. We have seen how in the case of three countries and a general balance of exchange rates, there are two rates for the three currencies. If one wants to have at one and the same time an equilibrium of the three bilateral trade balances, three conditions are laid down which cannot be fulfilled simultaneously if the market is free.

Let us now set the problem on more general lines. In a situation of general equilibrium of exchange rates throughout the world, given m countries, there exist between the currencies of these countries m-1 independent rates of exchange. On the other hand given the condition of the equilibrium of all the balances of payment of the m countries together, one obtains m-I equations, quite sufficient to determine the m-1 "unknown quantities" (this was proved one hundred years ago by by Cournot). The equilibrium rates of exchange are precisely those at which there is a simultaneous equilibrium of the balances of payment of all the countries. The coincidence between the number of exchange rates and the number of conditions proves that, from a logical point of view, a general equilibrium of exchange rates can quite well be achieved with a free market.

If instead we set the condition of the equilibrium of the bilateral balances of payment we shall obviously have $\frac{m\,(m-1)}{2}$ equations (that is to say the number of combinations obtained combining m countries two by two).

In this situation, if we wish to obtain a general balance of exchanging rates, we have $\frac{m\,(m-1)}{2} - (m-1) = \frac{1}{2}\,(m^2 - 3m + 2)$ equations too much. A general balance of exchange rates would therefore be impossible. Only a "sui generis" balance would be possible, characterized by the existence, no longer of m-1 exchange rates, but of $\frac{m\,(m-1)}{2}$ independent rates, that is to say a number of exchange rates formed by m-1 exchange rates, which we will call direct, and $\frac{1}{2}\,(m^2 - 3m + 2)$ cross-rates, which do not coincide with the direct rates. *In a free market, this discrepancy between direct and crossrates derives necessarily from the existence of bilateral trade relations.*

IV

Thus we see that an international balance of exchange rates and bilateral trade are two opposing terms, each excluding the other. This principle is of fundamental importance for the monetary policy of the International Fund.

From the statements made by Mr. Gutt, Chairman of the International Monetary Fund, in a lecture he gave at Harvard University last Feb. we learn that the Fund is very much disconcerted by the fact that in a number of countries the exchange rates for the dollar and the pound have given rise to cross-rates which differ from the official parity established by the Fund. This had already happened in the past in several South American countries where multiple exchange rates are quite common. However, since these countries were only of small importance in international trade relations, these discrepancies had never been considered a serious menace to the pound. But this occurrence takes on a completely different aspect when it happens in countries like Italy and, more recently, France. The press has dealt extensively with the lively discussions of the Fund concerning the recent monetary reform in France which the Fund disapproved of.

It was stated that it would be inexact to consider the rates formed in the so-called free markets as expressing the real value of the various currencies. On the contrary, they are said to be the result of a lack of cooperation between the governments and the Fund. The object of the Fund is to bring order into foreign exchange rates, even in a system of inconvertible currencies, and this cannot be done unless all countries do their best to maintain cross-rates at the level of the parity fixed by the Fund. In short, in the case of the dollar and the pound, all countries should undertake to maintain a cross-rate equivalent to the official parity of 4 dollars to the pound.

It seems to me that the problem should be set as follows: since the object of the Fund and of the governments must be to reestablish, as speedily as possible, currency convertibility and multilateral trade, will it be easier and quicker to attain this object by going on with the system of flexible exchange rates at present adopted by a number of countries (and if necessary by developing it further), or by obliging the governments to maintain cross-rates at the level of the official parity fixed by the Fund?

The circles connected with the Fund insist on the detrimental conditions created by cross-rates differing from the Fund's official quotations:

(a) doubts arise concerning the value of the currencies that result depreciated in the cross-rates in use in a number of countries where there is a free money market. For instance, the fact that the dollar-pound cross-rates are unfavorable to the pound strengthens the opinion that the pound is at present over-estimated in official quotations;

(b) disconnected cross-rates increase the difficulty of reestablishing currency convertibility in the future. If the pound is worth 4 dollars in one country, 3 dollars in another and 2.50 dollars in a third country, on what basis will it be possible to fix a uniform conversion rate between these two currencies?

(c) cross-rates that differ from one country to another and from the official parity fixed by the Fund lead to monetary arbitrage despite the ban and the punishments laid down by the States;

(d) far more important, it is stated, are the consequences regarding trade currents. Imports and exports follow a completely abnormal trend which is bound to change abruptly once currency convertibility is reestablished. Further, the disorder created by cross-rates leads to arbitrage on goods. If, for instance, the dollar is at a premium on the Paris free market, French speculators will find it worth while to purchase goods in Great Britain, import them to France and then export them to the dollar area and sell the dollar proceeds on the Paris free market. This means a lowering of Great Britain's dollar revenue. Or there is a marked tendency to import British raw materials to France, transform them into manufactured goods and export them to the United States. On the other hand, it may be in the interest of French importers to purchase American goods through Great Britain, Belgium or other neighboring countries instead of straight from the source.

All this may be right, however I should like to point out that if as a result of this arbitrage regarding goods, the supply of dollars in France increases, while the demand for dollars grows less, the cross-rate between the dollar and the pound will gradually change to the disadvantage of the dollar tending ultimately to approach the official parity.

However, there is no denying the drawbacks arising from a disorderly system of cross-rates; still I do not agree with the way in which the problem seems to have been expressed so far. The deformation of trade currents is not the consequence of disorderly cross-rates. On the contrary, it is the deformation of trade currents caused by bilateral agreements, that renders a general equilibrium of foreign exchange rates impossible. That is the basic factor. *The international monetary system formulated at Bretton Woods is incompatible with a system of bilateral trade agreements.*

But how is the present situation of disorder to be remedied? By doing away with the free money market wherever it has come into being and replacing its cross-rates by the official parity approved by the Fund for the various currencies? Let us see what the consequences of this step would be. Suppose the free market quotation for the dollar in a given country is 100 and for the pound 300, so that the cross-rate is 3 dollars to the pound. Now let us suppose that, in order to obey the Fund's recommendation, the government of the aforesaid country fixes the exchange rate for the pound at 340 and that for the dollar at 85: cross-rate 4 dollars to the pound according to the official parity fixed by the Fund. The immediate consequences would be: an increase in exports to the sterling area and a drop in imports from this area, which would have grown too expensive, and, on the other side, a drop in exports to the dollar area and an increase in imports from said area. Total result: an accumulation of inconvertible sterling balances on the one side and, on the other, a growing scarcity of dollars. In actual fact, the cross-rates which the Fund calls disorderly because they result in an appreciation of the dollar with regard to the pound, are merely the expression of a scarcity of dollars — a scarcity which the cross-rates, by stimulating imports from the sterling area and exports to the dollar area tend partly at least to correct.[1]

In order to avoid an increase in this lack of balance, such as would result from legally fixing cross-rates according to the official parity set down by the Fund, it would be necessary to introduce a whole control system so as to adapt trade balances to the official cross-rates. Everyone can see that this would mean a reduction in the total volume of trade and a perpetuation and accentuation of the bilateral system in contradiction with all ITO's resolutions as well as with the Fund's desire to reestablish multilateral trade exchanges.

As I have already said, the disparity of cross-rates has its drawbacks, but I think that there would be still more serious consequences if uniform cross-rates were imposed before we have the necessary presuppositions for this uniformity which, as things are at present, would be, in a manner of speaking, a foreign body introduced into a system which, owing to the prevalence of bilateral agreements, logically accepts a difference in cross-rates in the various countries.

A general balance of exchange rates cannot be obtained by means of artificial measures. I think that to impose a system of general balance of the exchange rates without first having the premise, namely multilateral trade, would mean travelling along a road which leads nowhere and there would be strong opposition from a number of countries, as was the case with France. It is worth mentioning here that the French reform was not followed by the serious perturbations in international monetary and trade relations that were anticipated when the French Government was getting ready to put it into effect. Moreover, while the French reform, as will be remembered, was severly criticized on the one hand, on the other hand, first rate theoretical economists and outstanding authorities of the financial world, such as the Chairman of the Swiss National Bank, looked upon French monetary measures (and Italian monetary measures before them) as giving proof of a clear understanding of present realities and as the first step towards an international cooperation based precisely on actual facts.

Undoubtedly, as Mr. Gutt remarked, the present situation concerning exchange rates is far from satisfactory. But, in my opinion, the solution of the problem is not to be found in an intensifying of controls with a view to achieving a monetary balance which, I repeat, I consider impossible as things are at present. A solution of the monetary problem is only to be reached through a more extensive and intensive cooperation among the governments in order to do away with bilateral agreements replacing them with commercial treaties facilitating the creation of a multilateral system, in the spirit of the recent Havana Convention. Naturally, at the same time, steps should be taken to ensure the domestic recovery of the currencies of countries that are still threatened by progressive inflation. As far as Italy is concerned, in view of the conditions of the State budget, the time has not yet come to communicate the official parity of the lira to the Fund and it is advisable, for the present, to go on with the present system which makes it possible to adapt the exchange rate to domestic changes in prices. Of course, it will be the strict duty of the Italian Government to continue its efforts in order to balance the State budget as soon as possible and to stabilize the value of the lira. Substantial progress has been already made, during the last few months, towards this aim.

[1] Italy is a case in question. I quote the following passage from the Governor of the Bank of Italy's last report: ". . .it is good to remember that, if sterling quotations on the Italian market have often deviated from the sterling-dollar cross-rate, this does not depend on the Italian currency system, but on the present unbalanced situation of our exports and imports in the sterling area. When, following on the agreements of April 17, 1947, the pound could once more be spent anywhere, its quotation on our market immediately attained official parity with the dollar, so that the British Empire and the dollar area were looked upon as one market; quotations dropped again when the convertibility of the pound was suspended on August 20th. . .

"Bringing the quotations for sterling up to the official level with dollar quotations, as is sometimes requested, would be an advantage to no one, as a high cross-rate would only make the lack of trade balance more marked, stimulating Italian exports to the British Empire, while this increased flow of sterling would find no counterpart in a substantial increase in its expenditure for imports."

Exchange Suspends Three Registered Representatives

Charles Kass, registered representative for Eisele & King, Libaire, Stout & Co. has been suspended by the New York Stock Exchange for a period of four months; Irving Kastin, of Sartorius & Co., for six months, and John P. Locke, of Francis I. du Pont & Co., for one month, for violation of margin regulations. The Exchange stressed that the violations had been committed without the knowledge of the firms the men represented.

MacDonald & Bowles Formed

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — James D. MacDonald and Thomas C. Bowles have formed MacDonald & Bowles with offices at 210 West Seventh Street to engage in the securities business. Mr. MacDonald was formerly associated with Harris, Upham & Co.

C. L. Vertin Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SALINAS, CAL.—Gordon W. Estes is with C. L. Vertin & Co., 341 Main Street.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Aug. 15	94.9	94.2	90.8	93.2
Equivalent to—					
Steel ingots and castings produced (net tons)	Aug. 15	1,710,500	1,697,900	1,636,600	1,630,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	July 31	5,455,450	5,447,800	5,483,800	5,087,600
Crude runs to stills—daily average (bbls.)	July 31	5,718,000	5,591,000	5,701,000	5,309,000
Gasoline output (bbls.)	July 31	17,646,000	17,879,000	18,041,000	16,558,000
Kerosine output (bbls.)	July 31	2,213,000	2,166,000	2,116,000	2,055,000
Gas oil and distillate fuel oil output (bbls.)	July 31	6,823,000	6,625,000	7,185,000	6,070,000
Residual fuel oil output (bbls.)	July 31	9,080,000	8,825,000	9,055,000	8,563,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 31	99,116,000	100,641,000	104,145,000	86,032,000
Kerosine (bbls.) at	July 31	21,051,000	20,382,000	18,733,000	17,769,000
Gas oil and distillate fuel oil (bbls.) at	July 31	56,661,000	54,756,000	47,538,000	46,693,000
Residual fuel oil (bbls.) at	July 31	65,713,000	64,556,000	60,926,000	52,935,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 31	894,381	882,566	757,366	921,591
Revenue freight rec'd from connections (number of cars)	July 31	700,970	685,161	638,621	694,120
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORDS:					
Total U. S. construction	Aug. 5	$153,594,000	$114,276,000	$168,718,000	$109,768,000
Private construction	Aug. 5	65,811,000	52,226,000	100,043,000	47,943,000
Public construction	Aug. 5	87,783,000	62,050,000	68,675,000	61,825,000
State and municipal	Aug. 5	65,684,000	48,377,000	54,663,000	45,245,000
Federal	Aug. 5	22,099,000	13,673,000	14,012,000	16,580,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 31	12,410,000	*12,250,000	3,700,000	11,695,000
Pennsylvania anthracite (tons)	July 31	1,231,000	1,191,000	100,000	1,126,000
Beehive coke (tons)	July 31	131,800	*134,500	26,700	136,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 31	234	231	265	220
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Aug. 7	5,319,409	5,352,439	4,760,316	4,874,172
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Aug. 5	116	98	88	60
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Aug. 3	3.76859c	3.77117c	3.24473c	3.17956c
Pig iron (per gross ton)	Aug. 3	$43.94	$43.72	$40.51	$36.38
Scrap steel (per gross ton)	Aug. 3	$43.16	$43.16	$40.91	$41.67
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Aug. 4	22.400c	21.200c	21.200c	21.225c
Export refinery at	Aug. 4	23.425c	21.600c	21.675c	21.050c
Straits tin (New York) at	Aug. 4	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Aug. 4	19.500c	19.500c	17.500c	15.000c
Lead (St. Louis) at	Aug. 4	19.300c	19.300c	17.300c	14.800c
Zinc (East St. Louis) at	Aug. 4	15.000c	15.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Aug. 10	100.72	100.72	100.83	103.73
Average corporate	Aug. 10	111.44	111.81	112.75	117.20
Aaa	Aug. 10	116.02	116.41	117.00	122.09
Aa	Aug. 10	114.08	114.46	115.43	120.22
A	Aug. 10	110.88	111.25	112.00	117.00
Baa	Aug. 10	105.34	105.86	106.74	109.97
Railroad Group	Aug. 10	107.62	107.98	108.34	112.56
Public Utilities Group	Aug. 10	112.00	112.19	113.31	118.60
Industrials Group	Aug. 10	115.24	115.63	116.41	120.63
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Aug. 10	2.45	2.45	2.44	2.25
Average corporate	Aug. 10	3.09	3.07	3.02	2.79
Aaa	Aug. 10	2.85	2.83	2.80	2.55
Aa	Aug. 10	2.95	2.93	2.88	2.64
A	Aug. 10	3.12	3.10	3.06	2.80
Baa	Aug. 10	3.43	3.40	3.35	3.17
Railroad Group	Aug. 10	3.30	3.28	3.26	3.03
Public Utilities Group	Aug. 10	3.06	3.05	2.99	2.72
Industrials Group	Aug. 10	2.89	2.87	2.83	2.62
MOODY'S COMMODITY INDEX	Aug. 10	425.1	431.9	432.9	424.8
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Aug. 7	245.9	244.3	243.2	222.0
Fats and oils	Aug. 7	221.6	225.1	279.8	187.8
Farm products	Aug. 7	270.9	276.1	275.9	259.0
Cotton	Aug. 7	305.4	313.0	330.4	344.4
Grains	Aug. 7	222.0	230.0	242.0	257.2
Livestock	Aug. 7	288.1	292.4	284.9	249.9
Fuels	Aug. 7	233.8	233.8	231.4	180.1
Miscellaneous commodities	Aug. 7	172.0	172.7	174.9	165.8
Textiles	Aug. 7	198.6	199.7	202.0	220.5
Metals	Aug. 7	184.4	181.8	166.6	158.8
Building materials	Aug. 7	233.4	231.9	228.0	221.3
Chemicals and drugs	Aug. 7	156.6	156.6	157.0	149.8
Fertilizer materials	Aug. 7	138.4	138.6	136.7	128.0
Fertilizers	Aug. 7	145.4	*144.4	143.8	135.0
Farm machinery	Aug. 7	143.1	143.1	140.2	127.1
All groups combined	Aug. 7	227.4	228.0	226.2	206.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 31	176,753	159,210	215,857	206,732
Production (tons)	July 31	178,892	175,182	171,583	173,527
Percentage of activity	July 31	92	91	89	99
Unfilled orders (tons) at	July 31	358,955	360,981	381,065	494,554
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Aug. 5	144.6	145.3	146.9	141.3
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	July 31	168.3	168.2	166.7	151.3
Farm products	July 31	192.2	194.6	197.2	180.8
Foods	July 31	187.7	190.4	184.1	168.0
Hides and leather products	July 31	189.6	189.5	188.3	174.5
Textile products	July 31	148.3	148.1	148.1	139.0
Fuel and lighting materials	July 31	136.8	136.5	134.1	109.7
Metal and metal products	July 31	167.3	160.9	159.4	146.1
Building materials	July 31	200.7	198.0	197.6	176.6
Chemicals and allied products	July 31	133.1	132.9	135.5	116.9
Housefurnishings goods	July 31	146.0	145.9	145.0	131.4
Miscellaneous commodities	July 31	118.6	119.2	121.1	116.8
Special groups—					
Raw materials	July 31	183.4	184.6	184.3	165.6
Semi-manufactured articles	July 31	152.9	154.5	154.0	147.2
Manufactured products	July 31	164.1	163.1	160.9	146.0
All commodities other than farm products	July 31	162.9	162.3	159.9	144.8
All commodities other than farm products and foods	July 31	152.1	150.6	149.8	134.7

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN ZINC INSTITUTE, INC.—Month of July:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	69,822	68,372	69,120
Shipments (tons of 2,000 lbs.)	67,497	69,345	59,737
Stock at end of period (tons)	45,605	43,280	183,718
Unfilled orders at end of period (tons)	64,922	69,345	44,955
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC. — 215 CITIES Month of June:	Latest Month	Previous Month	Year Ago
New England	$23,549,648	$15,783,492	$16,121,018
Middle Atlantic	75,102,332	86,795,445	75,994,025
South Atlantic	43,790,880	30,726,324	38,400,068
East Central	90,427,295	63,359,155	51,915,705
South Central	42,904,263	47,664,798	38,421,225
West Central	22,299,254	22,400,668	15,506,303
Mountain	7,881,189	10,703,903	5,115,008
Pacific	75,908,258	75,605,873	39,105,247
Total United States	$381,863,119	$353,039,658	$280,578,599
New York City	44,196,207	47,943,465	53,147,816
Outside of New York City	337,666,912	305,096,193	227,430,783
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS RECORD — Month of July:			
Total U. S. construction	$713,719,000	$596,332,000	$524,238,000
Private construction	357,495,000	330,830,000	253,321,000
Public construction	356,224,000	265,502,000	270,917,000
State and Municipal	281,338,000	207,255,000	194,180,000
Federal	74,886,000	58,247,000	76,737,000
COAL OUTPUT (BUREAU OF MINES)—Month of July:			
Bituminous coal and lignite (net tons)	48,315,000	53,208,000	39,882,000
Pennsylvania anthracite (net tons)	4,365,000	*4,590,000	4,084,000
Beehive coke (net tons)	410,500	*540,500	437,100
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of June 15:			
All items	171.7	170.5	157.1
All foods	214.1	210.9	190.5
Cereals and bakery products	171.2	171.1	154.6
Meats	255.1	244.2	216.9
Dairy products	205.9	204.8	171.5
Eggs	194.2	184.9	183.0
Fruits and vegetables	214.9	218.0	205.0
Beverages	205.1	204.6	181.3
Fats and oils	200.5	196.6	188.3
Sugar and sweets	170.6	173.0	179.7
Clothing	196.9	197.5	185.7
Rent	117.0	116.7	109.2
Fuel, electricity and ice	132.6	131.8	117.7
Gas and electricity	94.2	94.1	91.7
Other fuels and ice	170.1	168.6	143.0
Housefurnishings	194.8	193.6	182.6
Miscellaneous	147.5	147.5	139.1
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of July:			
Adjusted for seasonal variation	312	*313	287
Without seasonal adjustment	239	*289	220
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of June:			
Shipments (in pounds)	526,000	448,000	290,000
METAL PRICES (E. & M. J. QUOTATIONS)— Average for month of July:			
Copper (per pound)—			
Electrolytic, domestic refinery	21.375c	21.200c	21.226c
Electrolytic, export refinery	21.668c	21.696c	21.359c
Lead (per pound)—			
New York	17.808c	17.500c	15.000c
St. Louis	17.608c	17.300c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	74.625c	74.625c	63.568c
Silver, London (pence per ounce)	45.000c	45.000c	38.837c
Sterling Exchange (Check)	$4.0275	$4.0275	$4.0250
Tin (per pound)—			
New York Straits	103.000c	103.000c	80.000c
New York, Chinese or 99%	102.400c	102.400c	78.900c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$75.423	$76.000	$84.000
¶Antimony (per pound) (E. & M. J.)	38.170c	38.170c	35.940c
Antimony (per pound), bulk, Laredo	35.000c	35.000c	33.000c
Antimony (per pound), in cases, Laredo	35.500c	35.500c	33.500c
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined, per ounce	$89.154	$82.154	$53.000
†Cadmium (per pound)	$1.750	$1.750	$1.750
‡Cadmium (per pound)	$1.775	$1.775	$1.775
§Cadmium (per pound)	$1.800	$1.800	$1.800
Aluminum, 99% plus, ingot (per pound)	16.000c	15.115c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—East St. Louis	12.462c	12.000c	10.500c
Nickel	**35.913c	Not Available	
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of July 15:			
Unadjusted—			
All farm products	301	295	276
Crops	253	261	263
Food grain	240	249	251
Feed grain and hay	256	278	253
Feed grain	288	317	291
Tobacco	370	370	390
Cotton	266	284	289
Fruit	172	155	215
Truck crops	213	213	189
Oil-bearing crops	366	364	314
Livestock and products	344	326	286
Meat animals	417	390	343
Dairy products	300	291	244
Poultry and eggs	234	221	220
Seasonally adjusted—			
Fruit	157	140	199
Truck crops	258	231	223
Dairy products	319	319	259
Poultry and eggs	241	240	229
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of June:			
Total operating revenues	$838,105,949	$796,402,811	$697,822,483
Total operating expenses	626,079,812	616,231,264	550,353,240
Operating ratio—per cent	74.70	77.38	78.87
Taxes	$72,690,939	$75,966,676	$72,201,217
Net railway operating income before charges	124,979,063	90,178,066	61,249,090
Net income after charges (est.)	94,000,000	63,700,000	44,000,000

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot, packed in cases, f. o. b. New York.
**F.O.B. Port Colborne, N. S.

A Balanced Economy—Labor's View

(Continued from page 15)

since 1933 served us well during World War II.

When the atomic cloud billowed over Hiroshima, we should then have reckoned the terrible responsibility which victory had placed upon us. There were two alternatives ahead. We could abandon the world in a search for our own prosperity content with the protection our sole possession of the atomic bomb would afford. Or we could assume a partnership interest with the rest of our allies in an effort to build a world prosperity based on a world order, without atomic bombs. We accepted the second alternative not only because it was morally right but because reason could dictate no other choice in an atomic age.

Clashing Economic Systems

Our postwar commitments for relief and rehabilitation under UNRRA and, subsequently, the Marshall Plan, were costly and inevitable. They were part of the war's cost just as payments on the national debt and rehabilitation of our returning veterans would be a continuing charge on the American conscience and treasury. Unforeseen were the added responsibilities of a world soon to be torn in two by clashing political and economic doctrines. Russian aggression against Western democracy is both physical and ideological. The first has extended our foreign occupation costs and led to the allocation of new billions to rebuild our military might. The second is a more subtle challenge to America—a charge that our "decadent capitalist democracy" cannot maintain its inner stability and prosperity, and failing that, will renege on its commitments to the distressed world.

Communist doctrine has us marked for the inevitable "bust" to which, nature taking its own course, has foredoomed us. It is inconceivable to the Russian mind that conflicting interests working within our American democracy can harness their energies for social purposes. Reaction and greed will be the harbinger of depression, misery, and class war and our own stupidity, they say, will bring national disunity and chaos.

America celebrated V-J Day in a spirit of confidence and complacency. Unscathed by a single bomb our industrial plant had expanded 50% during five war years. These were the most modern and efficient in the world, already owned and paid for by private corporations or soon to be bought from the government at cut-rate prices.

Nor did we too ruthlessly take the profits out of war. Despite stringent excess profits taxes, the wartime profits of all American corporations more than doubled. From the 1936-39 base average of $4 billion annually, after taxes, they rose to an average of $9.6 billion, after taxes, for 1941 to 1945, inclusive. For each of the five war years the boom level of 1929 profits was outdistanced. By the end of 1945 the net working capital of our corporations had increased almost $25 billion.

Agriculture, too, could tangibly measure its wartime gains. Total net income of farm operators had risen from $4.6 billion in 1939 to more than $12 billion in 1945, an increase of more than 160%. Weekly earnings of workers in manufacturing industries did not keep pace with rising profits or farm income. During the same period they rose 85%, in large measure due to premium pay for overtime work which was soon to be ended after VJ-Day.

During the war years the American people added $100 billion to their savings in banks, war bonds, insuranee, savings and loan association assets and government pensions and trust funds. These savings were inequitably distributed; 10% of our families owned 60% of the nation's savings in 1945 while 40% shared only 1%. However, debts on homes and farms were paid off and a great backlog of demand for consumers' goods was built up. Never were the American people more solvent.

Even our state and local governments shared in this well being. With public construction delayed and relief needs at a minimum, debts of depression days were liquidated and surpluses piled up. But the Federal Government did not share in the pie. It was the pump that primed our wartime prosperity, and by 1946 its debt exceeded $260 billion.

CIO's View of Postwar Adjustments

As the CIO viewed the immediate postwar readjustment period four economic facts were paramount.

First, even with the end of hostilities, the expenditure of the Federal Government would continue high. Interest on the public debt alone exceeds $5 billion, more than the total Federal expenditure for any year from 1922 to 1934. Continuing charges for veterans' benefits, European occupation and relief, and the military would be tremendous. In 1939, our total Federal outlay was less than $9 billion. In each of three postwar years it is exceeding $40 billion. Postwar tax policies were needed to fit the facts.

Second, inflationary pressures would not abate with the end of war. In 1945, the demand for goods by industry and consumers and for European aid was many times greater than followed World War I. Without continuing anti-inflation controls, the price situation would become explosive and completely destructive.

Third, the gains in the living standards of the American people which were set in motion in 1933 could not be relinquished. With the tremendous wartime expansion in our productive resources, a higher standard of living for all came into sight. The command of income and savings must be more widely distributed. As the postwar economic props of relief and rehabilitation expenditures, industrial investment for expanded plant and inventory, and consumer demand backed up by wartime savings would begin to subside, continuously adequate buying power in the pockets of the masses of the American people must make us safe against another depression.

Fourth, America's long-range commitment to the rehabilitation of her land and her people would have to be met. Slum clearance and housing must be undertaken and the needs of education, health and extended social security must be answered. Natural resources, neglected in war, needed to be restored through further soil conservation, reforestation and water control. A chain of TVA's must be high on the national priority list.

These were the short- and long-range economic goals which challenged America. In three postwar years we have failed to meet the responsibilities that these goals have set for us.

The Victory celebrations had hardly ended in 1945 when the Congress, with indecent haste, repealed the excess profits tax and, thereby, gave American corporations, already enjoying boomtime profits, a gift of almost $6 billion in its first year of operation. The war had not yet officially ended and our soldiers were still overseas when this stupidly greedy and immoral act was consummated. Tax relief for new ventures and the hard pressed was reasonable; this unearned bonanza was not.

While Congress was enriching corporate enterprise at the expense of the U. S. Treasury, industry was cutting the take-home pay of the workers in basic industries in excess of 20%. In most mass production plants the work week was reduced to 40 hours from 48 or more, immediately following VJ-Day. Led by CIO an effort was made to prevent such a catastrophic loss to the nation's workers and a wage increase, to partially offset the loss, was asked. Savings to industry through elimination of overtime pay and excess profits taxes, in addition to the highest profit levels in history, permitted industry to absorb a wage increase without raising prices. Strikes occurred in the steel, auto and electrical industry only after CIO had offered to arbitrate the issues and those offers had been rejected. The now famous first round of wage increases was won and neither the economic necessity for them, nor the strikes which were forced on labor to obtain them, have justified the vilification heaped on us in this period and subsequently.

Early in 1946 the OPA, weakened and dispirited by open and continuous attack by employer interests, yielded a $5 per ton price increase to the steel industry following the 18½c per hour wage raise which it had granted. Other industries obtained similar price "relief." Yet, this was not enough; OPA—all of it must go. The National Association of Manufacturers led the nationwide drive with promises of lower prices under free operation of supply and demand within six months. With the pressure of every vested interest convering on Washington, a responsive Congress did their bidding. When OPA died it was not long before essential allocation and credit controls were ripped off the statute books. The wartime stabilization program was dead; inflation won the day.

With an unlimited and continuing demand for American production, the vicious spiral of increasing profits and prices and lagging real wages continued from 1946 into 1947 and is threatening us with chaos in mid-1948.

The profit figures reveal the cynicism of industry's claim to restraint in its pricing policy. The pious pronouncement that price increases only would compensate for wage increases falls flat on its face. Profits *after taxes* of American corporations were $8.9 billion in 1945; $12.5 billion in 1946; $17.8 billion in 1947; and, on the basis of half-year estimates, they will exceed $20 billion in 1948. Not every enterprise is sharing equally, but most are enjoying the profits of inflation.

The net income of farm operators also rose on the crest of inflation, increasing one-third between 1945 and 1947. The real earnings of industrial workers however, fell further behind. From the beginning of 1945, the last year of war, until the beginning of 1948, the real value of wages despite two rounds of increases fell 15.7%.

A third round has just been obtained. If prices would remain at their level of early 1948, the increases still would not fully compensate for the total loss in real earnings since 1945. But before it has even made its way into workers' pay envelopes, it is being taken back by industry in further price raises and profits.

Let those who are responsive to the propaganda that wages have caused our inflation consider these facts:

In 1946, as repayment for the first round of wage increases which averaged 18½ cents an hour a reluctant OPA granted the steel industry a price increase of $5 per ton.

But in 1948 as repayment for only a 13-cent-an-hour wage increase, the steel industry now gives itself an increase of $9.34 per ton. And, where demand continues to outdistance supply, the fabricators of steel will add their plusages and continue the pattern of extortionate profit of the last two years.

Corporation Profits

The statistics of the Federal Reserve Board clearly measure the profits of unrestrained inflation for our biggest business enterprises. In 1945, our 47 largest steel companies earned $188 million in profits after taxes. In 1946, they rose to $283 million, in 1947 to $435 million and 1948 earnings are easily expected to exceed a half billion dollars.

In automobile manufacturing the pattern is repeated. In the last postwar year, 1945, profits for 15 companies were $243 million; by 1947, they had reached $416 million; for 1948, they are expected also to exceed a half billion dollars.

The shabby charge that industry is unwillingly forced to increase prices because of the pressure of wage increases is clearly revealed in all its falsity by the price and profit picture in the oil industry. Here no increases increased costs of operation. Yet, according to the New York "Times" of July 25, the price of crude oil *at the wells* in the United States has been increased from $1.20 a barrel in April, 1946, to $2.65 today. At the present rate of consumption the increase in the price alone over the last two years amounts roughly to $2¾ billion annually. Such a sum, says the "Times," is larger than the total value at the farm of this year's near record wheat crop. The price increases, plus the unprecedented demand, have brought the earnings of the oil companies to levels never dreamed of a few years ago. Last week, the Standard Oil Company of New Jersey, the "Times" continues, estimated its net earnings in the first half of this year at $210 million, up 50% over the $140 million in the similar period of 1947. This is at a rate for one company alone, of $420 million in 1948—a profit after taxes in excess of a million dollars a day.

Let us assume that there was no CIO after World War II, as there were no unions in our mass production industries after the first World War, and that labor again was impotent to try to maintain its postwar standards of living. On the basis of the record, can you assume that the predatory urge of large segments of business would have been held in self-restraint and inflation would not have occurred. We are convinced that the answer is "No" because with or without unions, we see the forces of self-interest at work in this postwar era repeating again the patterns of post-World War I.

Emboldened by an increasingly reactionary Congress, the high chiefs of free enterprise, not content with their demolition of the surplus profits tax, the OPA and allocation and credit controls have liquidated the wartime income tax. By this special bonus to the well-to-do the Federal Government is being deprived of several billions more at the very time that Congress has passed the $17 billion Marshall Plan and a vast and expensive program of rearmament.

As for housing, health, education and river control, the free enterprise Congress has, as yet, done nothing. The long-range needs of the American land and its people must not upset the incentives of the real estate lobby, the utility lobby and the American Medical Association. We return to the normalcy of the pre-New Deal days with fantastic speed.

In three postwar years the dominance of the free enterprises over our political and economic life has already put the postwar economy tragically out of adjustment. As our inflation is breaking through to an all-time peak, let us examine some of the consequences:

(1) In postwar America our wage and salary earners and the fixed income groups have been forced to live under a steadily lowering standard of living. This is exactly what an intelligent postwar plan should have prevented. On the other hand, people in the upper income groups not only have been able to maintain but to increase their standards of living.

(2) Postwar inflation is robbing our low income groups of the ability to save while the rising costs of day-to-day living are rapidly liquidating the wartime accumulations. In 1945, individuals earning less than $3,000 annually held 15% of the total savings. However, with mounting prices the total savings held by this group fell to 3% in 1946. In the same period individuals earning more than $7,500 increased their share of the savings from 25% to 48%. By June, 1947, more than one-half of the Series E Bonds in the lower denominations had been redeemed. At present, according to the Federal Reserve Board, one out of every four families is spending more than it receives and, in 1948, 3,000,000 families will liquidate the last of their War Bonds. The hope of a sustained postwar prosperity aided by the wartime savings of millions of American families are fading as wealth becomes increasingly concentrated in fewer hands.

(3) In addition to the deprivations suffered by the U. S. Treasury due to reduced taxes, the inflation is multiplying the costs of all of the goods and services the government must buy. In the current fiscal year, as all national income records are being shattered, the Treasury faces a probable deficit. This is the time when a provident nation should be storing up a surplus to reduce the national debt and hold inflationary forces in check.

(4) Inflated prices in America have reduced the value of our loans to other nations even while they are being spent and have lessened the effectiveness of these loans. A world with limited dollars is finding their value diminished by America's inflation at a time when their need for our commodities is imperative.

(5) Inflation has made new housing prohibitive for all but the wealthy. Veterans, who have been forced by necessity to buy housing, are saddled with high cost, poor quality homes which are highly mortgaged. A collapse of the housing market coupled with unemployment would confront them with catastrophe.

(6) American farmers are being robbed of domestic consumers by inflation. According to the U. S. Department of Agriculture, between 1945 and 1948, civilian consumption of fruits had dropped 2%, canned vegetables 3%, milk 3%, eggs 4%, fresh vegetables 5%. With the exception of meat, all farm commodities are experiencing a drift downward at the very time that domestic consumption should be increasing—to advance the nation's health and to counteract the inevitable decline of exports to Europe and the world.

(7) Inflation, while it increases profits in the short run, lays the groundwork for leaner years ahead. Business insists that large profits are needed for industrial expansion; people with savings, they say, are no longer attracted to investment in private enterprise. This rationalization of exorbitant profits is dangerous and untenable. In the first place, the inflation which business sees reflected profitably in its earnings is inflating the costs of its own

industrial expansion. Secondly, corporations that plow super-profits into expanded plants discourage potential purchasers of stock in these enterprises while, at the same time, markets for their products are ultimately being destroyed because workers and consumers are being forced to bear the cost of the capital expansion.

A high profit, low consumption economy inevitably breeds depression. We need planned industrial growth and expansion; but, at the same time, we need an expanding purchasing power in the nation so that the expanded production can be bought by the people. Already consumer industries, like agriculture, amusements, tires, electrical goods, woolens, shoes, and hosiery, which quickly reflect lessening consumer purchasing power, are seeing inflation and lagging real incomes threaten their postwar boom.

(8) Unrestrained inflation is the incubator of the colossal crash. All of the economic and psychological factors upon which inflation feeds reverse themselves after the peak is passed and panic and pandemonium break loose in the downward plunge to depression. Thus, nature in the free market takes its frightful course.

Monopoly and Growing Corporate Power

Monopoly and the growing corporative power over all of American life have preceded the post-war inflation, but the war and postwar trend have dangerously added to their menace.

Of every $3 spent in America, $2 goes to corporations. Except for the small farmer, the professional, and the disappearing small businessman, corporations are the economic life of our nation.

Just prior to the war our 200 largest non-financial corporations held one-half of the assets of all corporations. By 1942, there were 205 corporations with assets of more than $50 millions each. They received nearly 85% of the total income of all American corporations. This should cause no surprise since, between June, 1940, and September, 1944, 18,000 corporations received $175 billion worth of war contracts from the government of which two-thirds went to the top 100 corporations. Thirty-three corporations each received $1 billion or more of contracts and accounted for 51% of the value of *all* contracts.

During the war the government built $17 billion worth of new plant facilities: 83% of these were operated by 168 of the 250 largest manufacturing corporations and they were given an option to buy or to lease them at the end of the war. These 250 corporations now control *two-thirds* of the manufacturing facilities of the country and 68 of them could purchase, with their liquid assets, the 71,000 smaller manufacturing firms.

The absorption of these smaller companies is occurring with increasing speed. According to the Federal Trade Commission, 2,450 formerly independent manufacturing and mining companies with assets of over $5 billion have been swallowed up since 1940. While our largest corporations have fought higher wages they have justified exorbitant profits because of capital expansion needs. Actually, much of this excess profit has simply been used to buy out competitors and increase monopolistic power, while providing no addition to the nation's productive capacity. In 1946, more mergers took place than in any of the previous 15 years.

It is ironical that bills were before the Congress to curtail this evil and nothing was done at the very time that the anti-union Taft-Hartley Act was enacted in the name of "anti-monopoly."

It is a mockery to hear the apostles of big business shriek for freedom from government control in the name of "free competition" and recall how monopoly maintained its stranglehold on prices during the last depression. From 1929 to 1933, while farm prices fell 60% and manufactured goods that were not monopoly controlled fell 30% to 50%, commodities sold by monopoly interests declined only 15 to 20%. These somber facts cast their shadows across the future.

On July 26, the Federal Trade Commission warned Congress that "no stretch of the imagination is required to foresee that if nothing is done to check the growth in concentration, either the giant corporations will ultimately take over the country or the government will be impelled to step in and impose some form of direct regulation in the public interest! It is the opinion of the CIO that the former has already occurred.

In a time of unequalled peacetime profits, production and employment, it affords me no pleasure to play the role of a Jeremiah. Yet, where is the responsible economist today who honestly holds hope for long and lasting prosperity on the road we are traveling. Economists do not argue the fact of another depression—they only vie with each other in predicting when it will come. Joseph Stalin, too—thinks a depression is due and awaits with hope the coming American catastrophe.

Should Nature Take Its Course

The Congress of Industrial Organizations gives you no finished blueprint for our economic future, although the direction we believe this nation must take has been clearly indicated. We cannot blindly "let nature take its course." Our economy is constantly in a state of change and we must wisely and firmly give it direction, using the political means that our Constitution affords for extending the greatest good for the greatest number.

We have confidence that human intelligence operating in our democratic environment can direct our economic destinies without recourse to the tactics of the totalitarian police state. The fulfillment of that hope rests with you and I and every American. We are conscious of the economic and spiritual values of private ownership and enterprise which moves towards social ends and is genuinely "free." But where the vested interests of economic power and monopoly, masquerading as free enterprise and competion, challenges the economic and human values of the nation, they must be tempered by social control.

In these days of great problems and perplexity the CIO seeks the aid of every ally it can find who will join in the creative task of building a balanced and prosperous nation and world.

We know that the NAM is controlled by 125 rich corporations who seek their own short-sighted monopolistic interests while pretending to champion all of American business. We hope that the genuine voice of small and medium enterprise will be heard and will join with labor on whose well-being it is so completely dependent.

In agriculture, too, there are false voices that betray the true interests of the working farmer. It is a source of deep concern to the CIO which has during the 13 years of its existence supported every major legislative program of agriculture to note how regularly powerful agricultural groups in Congress vote against the welfare of labor and of the nation. Too often we are given cause to wonder whether they do not more accurately represent agricultural and processing monopolies than the true interests of the family-sized farm.

The history of agricultural revolt against special interests and monopoly is a part of a glorious past. Once again America's farmers, with their voices and with their votes, must join with labor, the professionals, and progressive business to move America towards a stable and perpetually expanding way of life.

There is no time to wait. Mr. Stalin is watching intently and the atom bomb is on the loose.

Illinois Bankers Protest Increased Reserves

(Continued from page 10)

mobile manufacturers announced increases of 8% on the wholesale price of automobiles. Did or did not the present reserve requirements influence these increases?

"The steel companies have announced several increases in the prices of finished steel. What effect, if any, has the legal reserve of banks on these increases?

"The third round of wage increases is now in the process. Do bank reserves have anything to do with that?

"Building costs have gone up to the point where an ordinary house has practically outpriced its market. Did legal bank reserves cause this?

"I could go on and ask questions of this sort and fill several pages and I think that you could add to those that I would think of, but ask these questions of those who come to support this idea and see if they can give you any affirmative answers to them. Then ask them what effect, if any, have the operations of the Commodity Credit Corporation on prices of the things that we buy for our family and ourselves to eat. What effect, if any, has the Marshall Plan on the prices of not only the things that we eat but the clothes that we wear and the articles we use. Ask them if they are not treating legal bank reserves in the same way as we would have treated them back in the days of the call money market on the stock exchanges. Then they did have something to do with inflation as also did the rediscount rates, but in the meantime, call money doesn't amount to an ant hill. Margins for the purchase of securities have been increased to the point where speculation has been reduced to a minimum.

"Then ask them these questions: If legal reserves are increased, what would they do as responsible bank managers in the investment of bank funds? If Mr. Snyder or Mr. Eccles, for instance, were responsible for the operation of a bank and out of that operation had to meet the payroll, the cost of supplies, and other operating expenses, including taxes and dividends and a reasonable reserve for losses and were suddenly confronted with the necessity of reducing their loans and investment by 10%, would they not first sell their 'governments' in order to effect that reduction? If they did sell their 'governmens,' who would buy them? Wouldn't the answer be the Federal Reserve Banks? If the Federal Reserve Banks bought these 'governments' on the market, how would they pay for them? Would they not pay for them out of new money which they would print and would not that, therefore, inflate the currency outstanding and completely reverse the process of anti-inflation at which they are aiming? Would they not also be tempted to make speculative loans at a higher rate in order to compensate them for the loss of revenue resulting out of the idleness of 10% more of their deposits?

"I think that you will agree that these are not flippant questions, that we have been sold a bill of goods by fast-talking and loose-thinking people who set themselves up as authorities on economics and banking, and that they are hunting for a 'whipping boy' or 'scapegoat' and that the banks seem to be to them the most likely ones to persecute and blame all of our difficulties on. I am sure that you will agree with me that the answers to these questions will definitely establish in your mind the undesirability and the unfairness of this proposal and will induce you in good conscience to vote against this proposal.

"It will be argued that by increasing the legal reserves, the banks will have less funds to lend and thus the expansion of credit will be halted and by that action a phase of inflation will be halted. It is very, very doubtful if this would result. As I mentioned above, the tendency and temptation would be to sell 'governments' and keep the loans up and particularly those loans which would bring a higher rate of interest and which would in themselves be inflationary. But the fact of the matter, as any of the bank supervising authorities should know, is that the bankers are looking very carefully into all loan applications today, realizing that inventories and accounts receivable could take quite a tumble, particularly if the prices of farm products go off noticeably. Banks are quite wary today in extending credit and will be from now on until that 'bust,' which Marriner Eccles predicts is on the way and with which probably we will all agree, actually makes its appearance."

Money Is No Mystery

(Continued from page 5)

tant volume currently is that the banks, under the Federal support of Government bond prices, are free to turn their presently held Government bonds into the Federal Reserve Banks and use the proceeds to make new loans or purchase of assets. Thus the banks turn in $1 million, receive the equivalent of cash of $1 million, and using that $1 million cash as reserve can loan or buy up to $5 million additional—this being the resultant addition to the money supply.

These additions to our money supply resulting from bank loans and purchases are—like those resulting from gold purchases—now uncontrolled, and their amount depends on how much the banks please to lend on long-term as well as short-term loans, on mortgages, or other investments made to increase the banks' earnings.

Banks and Government Debt

The worst of it all is that the banks now hold more than $60 billion of Government paper which they are free to turn into the Federal Reserve and obtain reserves which enable them to multiply their additions to our money supply by new loans and investments. This results from our so-called support of Government bonds. So long as this continues, the additions to required reserves suggested by Mr. Eccles will reduce but not eliminate the rapid expansion of our money supply which is the real source of inflation.

The methods by which these procedures can be altered and made fiscally sound would and should interrupt the current boom. However, the mild setback that we might experience if stringent policies were now introduced to curb the increase in the money supply would be utterly insignificant compared to the major bust that we unavoidably face if our present inflationary trend continues.

Nothing in President Truman's suggested controls will stop the present drift—and it is a drift—towards dangerous inflation unless the increase in our money supply is halted.

Snyder Reports Surplus Exceeds $8 Billion

Secretary of Treasury gives budget results for fiscal year ended June 30, 1948.

Secretary of the Treasury John W. Snyder announced on July 2 that during the fiscal year 1948, which closed on June 30, the net receipts of the United States Government exceeded expenditures by $8,419,000,000.

This $8,419,000,000 represents the actual excess of receipts over expenditures in the fiscal year, and compares with a corresponding figure on the same basis of $754,000,000 in the fiscal year which closed on June 30, 1947.

The excess of receipts over expenditures in the fiscal year 1948 is the largest in the history of the Government. It is more than seven times the highest previous surplus of $1,155,000,000, which occurred in the fiscal year 1927.

The fiscal year's operations in more detail are as follows:

The surplus of $8,419,000,000 is $937,000,000 higher than estimated in January. Receipts were $465,000,000 below the January estimate, reflecting in part the loss of revenue under the Revenue Act of 1948. Adjusting the revenue estimate for this loss receipts were only $135,000,000, or 3/10ths of 1% higher than the estimate. Expenditures were $1,402,000,000 less than the January estimate, due principally to the fact that there has been some delay in expenditures for foreign aid and for the National Military Establishment.

Net receipts amounted to $44,746,000,000, an increase of $1,487,000,000 compared with last year. An increase of more than this amount in income tax receipts was partially offset by a decline in proceeds of sales of surplus property. Total expenditures amounted to $36,326,000,000, a decrease of $6,179,000,000 compared with the fiscal year 1947. This decrease is accounted for principally by reductions in expenditures for the National Military Establishment (mostly armed forces leave payments) and those for international finance.

Dealer-Broker Recommendations

(Continued from page 8)

Weld & Co., 40 Wall Street, New York 5, N. Y.

Tracerlab, Inc.—Discussion of organization prominent in manufacture of radioactive isotopes (a by-product of atomic energy) and their application in science, medicine and industry—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

United Piece Dye Works—Discussion of the preferred and common stocks—Security Adjustment Corporation, 16 Court Street, Brooklyn 2, N. Y.

Upson Company—Memorandum—John B. Dunbar & Co., 634 South Spring Street, Los Angeles 14, Calif.

Also available is a memorandum on **Federal Water & Gas Corporation**, containing data on the underlying companies, **Southern Natural Gas, Southern Production Company, and Scranton Spring Brook Water Company.**

Winters & Crampton Corp.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of **Miles Shoes, Inc.**

J. C. Harris III Joins

ATLANTA, GA.—Joel Chandler Harris III has become associated with Walter R. Thomas, Athens, Inc. In the past he was with Wyatt, Neal & Waggoner and Bounds, Pool & Co.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Air Associates, Inc., Teterboro, N. J.
Aug. 6 (letter of notification) 18,000 shares of common stock (par $1). **Price**—$10 per share. General corporate purposes. No underwriter.

Air Commuting, Inc., White Plains, N. Y.
June 17 (letter of notification) 1,060 shares of capital stock (no par value), of which 600 shares will be sold publicly at $100 per share. **Underwriter** — Burnham & Co. **Proceeds**—To be used to engage in limited helicopter operation over routes which the company is presently certificated to fly or in limited helicopter commercial work.

• Airway Investment Co., Airway Heights, Wash.
Aug. 5 (letter of notification) 550 shares of preferred stock (par $100). Price, par. No underwriter. To purchase real estate mortgages and contracts and other secured loans.

• All States Oil & Gas Co., Washington, D. C.
Aug. 2 (letter of notification) 299,000 shares (50c par) common stock. Price $1. To drill new wells and for general corporate purposes. No underwriting.

American Fidelity Fire Insurance Co., New York
July 2 (letter of notification) 20,000 shares 80c non-convertible preferred stock (par $5). **Price**—$14 per share. Stockholders of record July 15 will be given the right to subscribe to the stock on basis of one new share of preferred for each share of preferred or four common shares held. Rights expire Sept. 9, 1948. Expand fire insurance business. No underwriting.

Anco Electric Corp. (Del.), Wilmington, Del.
July 29 (letter of notification) 150,000 shares of common stock (par $1) and 150,000 shares of preferred stock (par $10). Price of preferred, par. The common shares will be issued to Anco Electric Corp. of New Jersey in exchange for assets. No underwriting. General corporate purposes.

Arkansas Power & Light Co. (8/24)
July 23 filed $7,500,000 first mortgage bonds, due 1978. **Underwriters**—Names will be determined by competitive bididng. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; White, Weld & Co.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly). **Proceeds** — To reimburse treasury for construction expenditures, to defray the cost of new construction and for other corporate purposes. Expected Aug. 24.

Armstrong Rubber Co., West Haven, Conn.
June 30 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock, ($50 par) and 2,000 shares of class A common stock. To be sold at $44 and $11.75, respectively. This stock is being sold by James A. Walsh, President of the Company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

Armstrong Rubber Co., West Haven, Conn.
July 8 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock ($50 par). To be sold at $44 each for Frederick Machlin, Executive Vice-President and Secretary of the company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

Associated Telephone Co., Ltd. (8/17)
July 27 filed 85,000 shares 5% preferred stock (par $20), of which 75,000 shares will be offered publicly at $21.25 per share and 10,000 will be offered for subscription by employees under a purchase plan at $20.25 per share. **Underwriters**—Mitchum, Tully & Co.; Paine, Webber, Jackson & Curtis, and the Stone & Webster Securities Corp. **Proceeds**—Plant expansion and to retire bank loans.

Belmont Iron Works, Philadelphia, Pa. (8/17)
July 23 filed 36,210 shares ($5 par) common stock. **Underwriters**—Stroud & Co. and Coffin, Betz & Sullivan. Proceeds to selling stockholders. Expected about Aug. 17 at $25 per share.

• Bolta Co., Lawrence, Mass.
Aug. 5 (letter of notification) 4,000 shares ($50 par) 4½% cumulative preferred stock. No underwriter. To increase working capital.

• Boston Insurance Co., Boston, Mass.
Aug. 11 filed 100,000 shares ($10 par) capital stock. **Offering**—To be offered for subscription by stockholders on basis of one new share for each three shares held. **Underwriter**—The First Boston Corp. will purchase unsubscribed stock. **Proceeds**—For additional capital funds.

Central Illinois Public Service Co. (8/17)
July 15 filed 574,087 shares ($10 par) common stock, owned by Halsey, Stuart & Co. Inc. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Glore, Forgan & Co.; Blyth & Co., Inc.; The First Boston Corp., and Central Republic Co. (jointly); Lehman Brothers and Lazard Freres & Co. (jointly); A. G. Becker & Co. **Bids**—Halsey, Stuart & Co. Inc. will receive bids for the purchase of the shares at 123 South La Salle Street, Chicago, up to 11:30 a.m. (CDT) Aug. 17.

• Chieftain Products, Inc., Brooklyn, N. Y.
Aug. 3 (letter of notification) 25,000 shares of common stock and 20,000 warrants. **Offering**—10,000 shares and 15,000 warrants to be offered in units (one common share and 1½ warrants) at $2.75 per unit, the balance of 15,000 shares being reserved for exercise of 15,000 warrants, purchasers of which will have the right for four years to purchase shares at $2.75 per share. General corporate purposes. **Underwriter**—Dunne & Co., New York.

Citizens Credit Corp., Wilmington, Del.
July 23 (letter of notification) 4,000 shares ($12.50 par) class A common stock and 4,000 shares (25 cents par) class B common stock. To be offered in units of one share of class A and one share of class B at $13.25 per unit. **Underwriter**—Emory S. Warren & Co. For general business.

• Codman & Shurtleff, Inc., Boston, Mass.
Aug. 3 (letter of notification) $100,000 5% 10-year notes and 5,000 shares (no par) common stock. To be offered in units of five shares of common and 100 in face value of notes. No underwriter. For working capital.

Colonial Western Underwriters Co., Inc., Shreveport, La.
July 12 (letter of notification) 24,170 shares of Class A common stock ($1 par). **Price**—$10. **Underwriter**—Mid-South Securities Co., Nashville, Tenn. To purchase the controlling interest in other corporations, particularly life insurance companies.

• Colvin Corp., Long Island City, N. Y.
Aug. 4 (letter of notification) 20,000 shares of common stock (par $10). Price, par. For additional working capital. No underwriter.

Commercial Discount Corp., Chicago, Ill.
July 16 (letter of notification) 5,970 shares $3.50 prior preferred stock, ($50 par) and 11,940 shares of Class A common stock. To be sold in units of one share of preferred and two shares of Class A common for $50.25 per unit. **Underwriter**—Julien Collins & Co. Working capital and general corporate funds.

• Commonwealth Investment Co., San Francisco, Calif.
Aug. 9 filed 460,760.390 shares of common stock ($1 par). Shares are to be offered at the public offering price in effect at time of sale.

Continental Motors Corp.
July 19 filed 300,000 shares ($1 par) common stock. **Underwriter**—Van Alstyne Noel Corp. **Proceeds**—To be applied toward the payment of $3,500,000 bank notes.

Cowles Co., Inc., Cayuga, N. Y.
Aug. 2 (letter of notification) 500 shares of capital stock (par $5). **Price**—$35 per share. **Underwriter**—Blair F. Claybaugh Co., Syracuse, N. Y. Additional working capital.

• Eaton & Howard Balanced Fund, Boston, Mass.
Aug. 9 filed 700,000 trust shares. Proposed maximum aggregate offering price to the public: $18,158,000 based upon the price at which shares would have been sold as of the close on Aug. 3.

• Emery-Hill Stores Co., Greenville, S. C.
Aug. 5 (letter of notification) 20,000 shares of common. Price, $4.75 per share. **Underwriters**—Frank S. Smith & Co., Inc., McAlister, Smith & Pate, Inc., and McCarley & Co. For repayment of short-term financing, for liquidation of bank loans and for addition to working capital.

Eureka Corp. Limited, Toronto, Ontario, Can.
July 7 filed 675,000 shares ($1 par) common stock and 405,000 common stock purchase warrants to be offered shareholders at the rate of one for each 25 held. **Underwriter**—None is planned. **Price**—135,000 units are to be offered, consisting of five common shares and a stock purchase warrant for three shares, for $7.50 per unit. **Proceeds**—To de-water mine, cross-cut to the ore zone, and for repayment of temporary loans.

• Eureka Williams Corp., Bloomington, Ill.
Aug. 9 (letter of notification) 4,700 shares ($5 par) common stock. **Price**—$6.25 per share. No underwriter. For working capital.

Fireman's Fund Insurance Co., San Francisco
July 23 filed 458,544 shares of common stock ($7.50 par). **Offering**—Shareholders of record Aug. 23, will be offered 433,164 shares at $30 per share at rate of four new shares for each five shares held. **Underwriters**—Blyth & Co., Inc., The First Boston Corp., and Dean Witter & Co. will underwrite 25,380 shares and will purchase all unsubscribed shares. **Proceeds**—To provide the companies of the Fireman's Fund Group with additional capital funds.

Flotill Products, Inc., Stockton, Calif.
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares and 75,000 common shares. Company's proceeds will be used for general corporate purposes. Effective May 5.

• Ford Gum & Machine Co., Inc., Lockport, N. Y.
Aug. 5 (letter of notification) $300,000 6% corporate notes (40 notes each not to exceed $7,500). Price, par. Working capital. No underwriting.

• Fowler Farm Oil Corp., Fort Worth, Texas
Aug. 5 (letter of notification) 100,000 shares of common stock (par $1). Price, $1. No underwriter. For drilling operations.

• (C. M.) Hall Lamp Co., Detroit
Aug. 2 (letter of notification) 53,770 shares of common stock (par $5) to be offered to stockholders. For advances to a subsidiary, Indiana Die Castings, Inc., and to improve shipping and storing facilities. No underwriting.

• Haydock Fund, Inc., Cincinnati, O.
Aug. 10 filed 82,500 capital shares. Subscription price is net asset value. The Fund receives the full amount paid by subscribers.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

Illinois Power Co., Decatur, Ill.
June 30 filed 690,098 shares of common stock (no par value). To provide for conversion of 345,049 shares of outstanding 5% cumulative convertible preferred stock (par $50) which the company intends to call for redemption at $52.50 per share and accrued dividends. Each preferred share is convertible into two common shares. Public offering is contemplated of the common (479,890 shares) not issued in conversion. Underwriting by amendment. **Price**—$26.25 per share. Probable underwriter: The First Boston Corp. **Proceeds**—To redeem the preferred stock and for construction.

• Independent Business Publishing Co., Denver, Colo.
Aug. 5 (letter of notification) 500 shares of common stock (par $10) and 2,000 shares of 5% cumulative preferred stock ($10 par). Price, par. No underwriter. To purchase equipment for issuing periodical.

Indiana & Michigan Electric Co. (9/14)
July 14 filed $25,000,000 first mortgage bonds, due 1978. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Dillon, Read & Co. Inc.; Harriman Ripley & Co. **Proceeds**—To prepay $6,000,000 of bank notes borrowed for construction and $10,000,000 borrowed by Indiana Service Corp. and assumed by the company under a merger, and for treasury funds. Expected about Sept. 14.

• Interchemical Corp., New York (8/17)
Aug. 9 (letter of notification) 5,000 shares of common stock. **Price**—Market (between $18-20 per share). Proceeds to selling stockholders. Special offering on New York Stock Exchange.

• Johnson Power-On Transmission Corp. of Illinois, Chicago
Aug. 9 (letter of notification) 7,500 shares common vot-

NEW ISSUE CALENDAR

August 17, 1948

Associated Telephone Co.______________Preferred
Belmont Iron Works______________________Common
Central Illinois Public Service Co.
11:30 a.m. (CDT)________________________Common
Interchemical Corp. ____________________Common
Wisconsin Public Service Co.
11:30 a.m. (CDT)_________________________Bonds

August 18, 1948

Southern California Edison Co.
8:30 a.m. (PST)__________________________Bonds

August 24, 1948

Arkansas Power & Light Co.________________Bonds
Chesapeake & Ohio Ry., noon___Equip. Trust Ctfs.
Youngstown & Southern Ry., noon (EDT)____Loan

August 25, 1948

Chicago Rock Island & Pacific Ry.
11:30 a.m. (CDT)____________Equip. Trust Ctfs.

September 1, 1948

Squankum Feed Supply Co., Inc.______Debentures

September 14, 1948

Indiana & Michigan Electric Co.____________Bonds

ing stock (par $10). Price, par. No underwriter. For improvement and development expenses.

● **Kaaba Silver-Lead Mines Inc., Nighthawk, Wash.**
Aug. 2 (letter of notification) 250,000 shares of common stock. Price 25c. No underwriter. For equipment and mine development.

● **Kansas Soya Products Co., Inc., Emporia, Kan.**
Aug. 2 (letter of notification) 78,000 shares (25c par) common stock and 1,925 shares of $5 cumulative preferred stock. **Underwriter**—Kenneth Van Sickle, Inc. For additional working capital.

Kingsburg (Calif.) Cotton Oil Co., Kingsburg
July 14 (letter of notification) 20,000 shares ($1 par) capital stock. **Price**—$4.25 per share. **Underwriter**—Fewell & Co., Los Angeles. Proceeds to selling stockholders.

● **Kold-Hold Manufacturing Co., Lansing, Mich.**
Aug. 6 (letter of notification) 36,666 shares ($1 par) common stock. Shares will be issued to H. B. Johnson and J. J. McQuaid on conversion of $55,000 of 5% convertible debenture bonds, due 1955. **Underwriter**—Buckley Securities Corp.

● **Libbey-Owens-Ford Glass Co., Toledo, O.**
Aug. 5 (letter of notification) options to 256 company employees to purchase 3,415 shares at $26.25 per share under employee stock purchase plan. No underwriting. For general purposes of issuer.

● **Los Gatos (Calif.) Telephone Co.**
Aug. 4 (letter of notification) 11,550 shares common stock ($10 par). Price, $16 per share. No underwriting. To purchase Morgan Hill Telephone Co., to construct a building, to buy a lot and to liquidate bank loans.

McAleer Manufacturing Co., Rochester, Mich.
June 15 (letter of notification) 7,000 shares of common stock (par $1). **Price**—$5.50 per share. **Underwriter**—C. G. McDonald & Co.

McVicar Mining Co., Ltd., Vancouver, B. C.
July 14 filed 400,000 shares (par 50¢ Canadian funds) common stock and 1,100,000 common share purchase warrants, as well as 1,100,000 common shares to be reserved for issuance upon exercise of warrants. **Underwriter**—Carstairs & Co., Philadelphia. **Price**—60 cents (U. S. funds) and 60 cents (Canadian funds) for not more than 100,000 shares to be sold in Canada; one cent each for the warrants. **Proceeds**—General funds and to develop mining property.

● **Matheson Co., Inc., East Rutherford, N. J.**
Aug. 4 (letter of notification) 5,000 shares of 6% cumulative preferred stock (par $20) and 1,000 shares of common stock (no par). **Offering**—To be offered in units consisting of five shares of preferred and one common share. **Price**—$100 per unit. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. Replenish working capital funds of company for payments made on account of purchase of capital stock of Paragon Testing Laboratories.

● **Midland Cooperative Wholesale, Minneapolis, Minn.**
Aug. 9 filed 15,000 shares of Preferred stock D, non-cumulative ($100 par). **Underwriting**—None. Shares are to be sold at par, plus a premium of $1, $2, and $3 for the second, third and fourth quarters, respectively, in which they are sold, representing an allowance for dividends. **Proceeds** for additions and improvements, inventory and accounts receivable.

● **Midland Oil Co., Cheyenne, Wyo.**
Aug. 5 (letter of notification) 3,000 shares of common stock ($100 par). Price, par. No underwriter. For operations and general development.

Midwest Packaging Materials Co., St. Louis, Mo.
June 25 (letter of notification) 3,500 shares of common stock (par $5). **Price**—At market. **Proceeds**—To selling stockholder. **Underwriter**—Edward D. Jones & Co.

● **Mining (J. L.) Co., Phoenix, Ariz.**
Aug. 2 (letter of notification) $300,000 in par value common stock to be sold in units of $1 per share. No underwriter. For establishment of a mill and other necessary buildings and equipment at mining claims.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

● **National Research Corp., Cambridge, Mass.**
Aug. 3 (letter of notification) 4,700 shares ($1 par) common stock. **Underwriter**—Paine, Webber, Jackson and Curtis, Boston. Price $21.15 per share. Proceeds to William A. Coolidge, selling stockholder.

● **National Tea Co., Chicago**
Aug. 6 filed 128,230 common shares ($10 par). **Offering**—Common stock to holders of record Aug. 30, will be entitled to purchase, on or before Sept. 15, 1948, one common share for each five common shares held. Price by amendment. **Underwriters**—Hemphill, Noyes & Co. and Merrill Lynch, Pierce, Fenner & Beane head a group that will acquire any of the 92,783 shares remaining after the stockholder offering. Proceeds to restore cash spent for general corporate purposes and to finance modernization of stores.

● **New London Freight Lines, Inc., Riverhead, New York**
Aug. 9 (letter of notification) 790 shares of common stock (par $100). Price, par. Stock will be purchased by H. Chester Swezey, President, Eastport, N. Y., for investment. Purchase of vessel, working capital.

Official Films, Inc., New York
July 16 (letter of notification) 49,000 shares 35¢ cumulative preferred stock (par $5) and 49,000 shares of common stock (par 10¢). **Price**—$6 per unit, consisting of one share of each. Working capital and other general corporate purposes. **Underwriter** — Aetna Securities Corp., New York. Expected early in September.

Old North State Insurance Co.
June 24 filed 100,000 shares of capital stock (par $5). **Price**—$15 per share. **Underwriter**—First Securities Corp., Durham, N. C. **Offering**—26,667 shares will be initially offered on a "when, as and if issued" basis; 13,333 shares will be purchased by underwriter for public or private offerings; and the remaining 40,000 shares will be publicly offered on a "best efforts basis" on completion of the subscription of the first 40,000 shares and the company's receipt of a license to do business in North Carolina. **Proceeds**—For general business purposes.

Powder River Oil Co., Denver, Colo.
May 11 (letter of notification) 400,000 shares (10¢ par) common stock. **Price**—25 cents. **Underwriter** — **R. L. Hughes and Co.**, Denver. For working capital.

Powers Oil & Drilling, Inc., Casper, Wyo.
July 14 (letter of notification) 800,000 shares (25¢ par) common stock. **Price**—25 cents per share. **Underwriter**—John G. Perry & Co. For drilling operations.

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; Union Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—For property additions and improvements. **Bids**—Company, Aug. 4, received two bids on the proposed issue of 200,000 shares of preferred stock, but rejected both. On July 7, last, the same issue was put up for sale, but when the hour came for underwriters to submit their bids the management declined to accept them. A group headed by the Union Securities Corp. and White, Weld & Co. on Aug. 4 bid 100.90 for stock with a $4.50 dividend, which compared with the bid of 101.65 for $4.40 dividend stock which this group was prepared to submit July 7. Morgan Stanley & Co. and associates bid 100.55 for $4.50 dividend stock, the same terms as they were prepared to bid on July 7. These were the only bidders at each of the sales.

● **Quebec Oil Development Ltd., Montreal, Can.**
Aug. 4 filed 2,000,000 shares of capital stock, ($1 par Canadian funds). **Underwriter**—Hiscox, Van Meter & Co., Inc. Price, $1 per share (United States funds). For each 20,000 shares of stock sold, the company will deliver to the underwriter stock purchase warrants entitling the holder to purchase, on or before Sept. 1, 1950, 1,000 shares of capital stock of the company at $1.50 per share. **Proceeds**—For drilling operations.

● **Rudd Manufacturing Co., Pittsburgh, Pa.**
Aug. 5 (letter of notification) 11,124 shares of common stock. **Price**—$25 per share. Stockholders of record Aug. 12 are given the right to subscribe at rate of one new share for each nine shares held. Rights expire 3 p.m. (EDT) Aug. 26. Expansion of business. No underwriting.

● **St. Anthony Mines Ltd., Toronto, Can.**
Aug. 6 filed 1,088,843 common shares (par $1). Price, 40 cents per share. Underwriter—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

Sangamo Electric Co., Springfield, Ill.
June 29 (letter of notification) 8,500 shares (no par) common stock, (stated value $8 a share). **Price** — $33.625. **Underwriter** — Paul H. Davis & Co., Chicago. Proceeds will be used to partially reimburse the treasury for expenditures in connection with a new $1,000,000 plant at Marion, Ill.

Sanger Bros., Inc., Dallas, Tex.
June 25 (letter of notification) 2,000 shares of common stock (par $2.50). **Price**—At market (about $11.25 per share). **Underwriters**—Walker, Austin & Wagener and Stifel, Nicolaus & Co. **Proceeds**—To selling stockholder.

Shoe Corp. of America, Columbus, O.
June 28 filed 25,000 shares of cumulative preferred stock (no par), with class A common share purchase warrants attached and 25,000 shares of common stock reserved for warrants. **Underwriter**—Lee Higginson Corp. **Proceeds**—For general corporate purposes. Indefinite.

● **Southern Advance Bag & Paper Co., Inc., Boston, Mass.**
Aug. 9 (letter of notification) 2,350 shares ($1 par) common but not to exceed $100,000 aggregate offering price. **Underwriter**—E. H. Rollins & Sons, Inc.

Southern California Edison Co. (8/18)
July 28 filed $25,000,000 first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.), jointly; Shields & Co.; Lee Higginson Corp., and F. S. Moseley & Co. (jointly). **Proceeds**—Finance construction program. **Bids**—Bids for purchase of bonds will be received at company's office, 601 West 5th Street, Los Angeles, up to 8:30 a.m. (PDT) on Aug. 18.

● **Squankum Feed Supply Co., Inc., Farmingdale, New Jersey (9/1)**
Aug. 4 (letter of notification) $150,000 20-year 5½% sinking fund debentures. **Price**—102. Working capital, etc. **Underwriter**—Fidelity Securities & Investment Co., Inc., Asbury Park, N. J.

● **Sterling Oil & Refining Corp., Houston, Texas**
Aug. 10 filed $2,500,000 4½% income debentures, due Oct. 1, 1963 (with 10-year subscription warrants attached for initial purchase by stockholders of 80,000 shares no par common stock). **Underwriter**—Kidder, Peabody & Co. will purchase all unsubscribed debentures or stock warrants for public offering. **Proceeds**—For general corporate purposes.

● **Super-Electric Products Corp., Jersey City, New Jersey**
Aug. 4 (letter of notification) 59,700 shares of common stock (par $2.) **Price**—$5 per share. **Underwriter**—The First Guardian Securities Corp., New York. Additional working capital, expansion, etc.

● **Tacoma (Wash.) Drug Co.**
Aug. 5 (letter of notification) 2,000 shares of 5% cumulative preferred stock (par $100). Price, par. No underwriter. For construction and working capital.

● **Teletronics Corp., Hollywood, Calif.**
Aug. 2 (letter of notification) 480 preferred shares to be offered at $100 each, 2,000 shares common class A stock to be offered at 50 cents each, and 2,000 shares of common class B stock to be issued in exchange for all of the assets of Teletronics Engineering Inc. No underwriter. For business operations.

Tide Water Power Co., Wilmington, N. C.
July 30 filed 80,000 shares (no par) common stock. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. Price by amendment. **Proceeds**—For construction. Indefinitely postponed.

U. S. Airlines, Inc., St. Petersburg, Fla.
June 2 (letter of notification) 171,000 shares ($1 par) common stock. **Price**—56 cents each. To be offered for Frances B. Law, Robert B. Law, and Theodore N. Law. **Underwriter**—R. H. Johnson & Co., New York.

● **Union Finance Co., Passaic, N. J.**
Aug. 5 (letter of notification) 20,000 shares of 7% cumulative preferred stock (par $10) and 20,000 shares of common stock (par $1). Increase working capital. No underwriting.

United Utilities & Specialty Corp., Boston
July 29 filed 41,000 shares of 5% cumulative convertible preferred stock ($10 par). **Underwriters**—Herrick, Waddell & Reed, Inc., and George R. Cooley & Co., Inc. **Proceeds**—For general corporate purposes.

● **Upson Co., Lockport, N. Y.**
Aug. 10 (letter of notification) 1,900 shares of common stock (par $10). **Price** to public, $16.50 per share. **Underwriter**—Hamlin & Lunt, Buffalo, N. Y. Proceeds to selling stockholders.

● **Western Pacific RR. Corp.**
Aug. 3 (letter of notification) 8,000 shares of 6% preferred stock (par $100). **Price**—$4 per share. To be offered to preferred stockholders and any not taken will be reserved for sale in the market or by private negotiations. No underwriter. To meet current expenses, including cash outlays in connection with certain litigations.

● **Western World Industries, Inc., Salt Lake City, Utah**
Aug. 2 (letter of notification) 60,000 shares of common non-assessable stock (20c par). Price 50 cents each. No underwriter. For equipment and operating expenses.

Wisconsin Public Service Corp. (8/17)
July 19 filed $5,250,000 first mortgage bonds, series due Aug. 1, 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Goldman, Sachs & Co. and Salomon Bros. & Hutzler (jointly); Glore, Forgan & Co. and Central Republic Co. (jointly); Shields & Co.; Kidder, Peabody & Co.; Harris Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For the payment of $4,600,000 of short-term bank loans and for construction. **Bids**—Bids for purchase of the bonds will be received by company at Room 1100, 231 South La Salle Street, Chicago, up to 11:30 a.m. (CDT) on Aug. 17.

(Continued on page 42)

Prospective Offerings

(Continued from page 41)

● **Chesapeake & Ohio Ry. (8/24)**
The company is inviting bids to be received at noon Aug. 24 for $5,500,000 equipment trust certificates to finance the purchase of equipment costing $5,519,806. Certificates will be dated Sept. 15, 1948, and mature serially in equal annual instalments from Sept. 15, 1949 to Sept. 15, 1958, both inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.).

Chicago Rock Island & Pacific RR. (8/25)
Bids will be received up to 11.30 a.m. (CDT) Aug. 25 at company's office at 1136 La Salle St., Chicago, for the purchase of $3,420,000 equipment trust ctfs. series B. To be dated Sept. 1 and to mature in 20 equal semi-annual instalments from March 15, 1949 to Sept. 15, 1968. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Kidder, Peabody & Co. and Dick & Merle-Smith.

● **Cooper-Bessemer Co.**
Sept. 14 stockholders will vote on giving the directors permission to sell up to 90,000 shares of common stock (par to be changed to $5 from no par) for cash without requiring that such shares be first offered for subscription by existing common stockholders.

● **Detroit Edison Co.**
Aug. 11 reported directors will give further consideration to company's financing needs at a meeting later this month. Prentiss M. Brown, Chairman said that the company will need about $30,000,000 to carry its construction program through the first part of 1949. To meet its requirements, it is planned to issue senior securities later this year. The type of such securities has not yet been determined but may involve convertible debentures, Mr. Brown said. Any securities convertible into stock would be offered first to stockholders.

● **El Paso Natural Gas Co.**
Step. 8 stockholders will vote (1) on increasing the aggregate principal amount of bonds issuable under mortgage dated June 1, 1946 (exclusive of bonds issued for refunding or exchange for other bonds) from $60,000,000 to $157,000,000; (2) on approving an increase in the authorized common stock from 825,000 to 1,100,000 shares; also changing and reclassifying each share of common stock into three shares, (if the first increase shall become effective) by authorizing a further increase in the authorized common stock from 1,100,000 to 3,300,000 shares.

● **Metropolitan Edison Co.**
The company has asked the SEC for authority to sell $3,500,000 first mortgage bonds, due 1978, and 40,000 shares ($100 par) cumulative preferred stock. Competitive bidding will determine the interest and dividend rates, offering prices and underwriting terms. Proceeds, together with $1,500,000 from its parent, General Public Utilities Corp., will be used for new construction, to pay off bank loans of $550,000, and to the extent of $1,500,000 as a cash capital contribution to Edison Light & Power Co., a subsidiary. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Kidder, Peabody & Co. (alone on bonds and with group on preferred); Drexel & Co. (on bonds and preferred); Smith Barney & Co. and Goldman Sachs & Co (preferred only).

● **Michigan Bell Telephone Co.**
Michigan P. S. Commission has authorized company to issue $75,000,000 debentures. Proceeds would be used in part to repay $57,950,000 demand notes held by American Telephone & Telegraph Co. The proposed debentures would be dated Oct. 15, 1948, and would mature in not more than 40 years. Interest rate would be determined by sale at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Harris, Hall & Co. (Inc.).

● **Pennsylvania Power & Light Co.**
Oct. 13 stockholders will vote on increasing authorized preferred stock as a preliminary step toward raising $11,000,000 of new securities to finance expansion. Once approval has been obtained company is expected to sell $6,000,000 of preferred stock and offer rights to present stockholders for additional common shares to raise around $5,000,000. Later this year the sale of additional bonds is planned. Proceeds would provide funds for company's construction program well into 1950.

● **Pennsylvania RR.**
Aug. 9 reported company may be in market early October for sale of $10,000,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

● **Portland (Ore.) General Electric Co.**
Company plans to issue and sell approximately $3,000,000 additional first mortgage bonds in the fall of the year. Proceeds for construction. Probable bidders: Halsey, Stuart & Co Inc.; Harriman, Ripley & Co.; The First Boston Corp.; Salomon Bros. & Hutzler; Kidder Peabody & Co.; Equitable Securities Corp., and White Weld & Co. (jointly); Blyth & Co., Lehman Bros. and Merrill Lunch, Pierce, Fenner & Beane (jointly).

● **U. S. Industrial Chemicals, Inc.**
Sept. 1 stockholders will vote on creating 300,000 preferred stock (par $50), issuable in series. The intial series of 150,000 shares, which would carry convertible features, would be offered for subscription by stockholders at par on basis of three preferred shares for each 10 common shares held. Proceeds will be used for building of plants in which to process hydro-carbon chemicals derived from new synthetic gasoline production. The issue, it is expected, will be underwritten by Harriman Ripley & Co., Inc.; Union Securities Corp.; Wertheim & Co. and G. H. Walker & Co.

● **Wood (Alan) Steel Co.**
Aug. 5 John T. Whiting, President announced company intends to partially finance $8,900,000 expansion through isssue of new securities. Negotiations for public sale of securities are now in progress with Drexel & Co.

● **Youngstown & Southern Ry. (8/24)**
Company is requesting bids for a new $1,300,000 loan to retire outstanding obligations in that amount. The purpose is to obtain a reduction in interest payments which range from 3½% to 4% on present notes. The interest rate on the proposed new note would be determined by competitive bidding. Bids will be received by company at Room 1443, Oliver Building, Pittsburgh, up to noon (EDT) Aug. 24.

Our Reporter's Report

The investment market's first reaction to the Treasury's move in raising short-term interest rates as its contribution to the Administration's plan to halt inflation was not especially far-reaching.

As might have been expected, there was some adjustment in the government market, but even in that direction resulting changes were hardly impressive perhaps for the reason that short-terms especially had more or less discounted the action by the gradual decline of the last fortnight.

The corporate market did not appear to be visibly disturbed beyond some slight shading of prices in the high-grade division. For a period of some 18 months past this particular section of the money market has been recognizing that the low of interest rates under the managed money economy of the "New Deal" had long since been seen.

Unless and until the situation becomes decidedly more pronounced, it is not expected that industry will clamp down too hard on its expansion plans. Far more important from industry's point of view, with regard to its new construction programs, is the element of basic costs, such as labor and materials.

Should the tapering off of unduly liberal credit curb headlong demand and ease the relationship between supply and demand in basic materials, industry might reasonably be expected to regard the move as an inducement to go ahead.

Without Delay

Bankers who were successful in acquiring the 200,000 shares of new preferred stock put up for competitive bidding by the Northern States Power Co. of Minnesota earlier this week, found it advisable to make a quick revision in their reoffering terms.

The winners paid the company a price of 100.81 for the issue, specifying a 4.80% dividend rate. The only other bid received, for the same dividend, was 100.7599.

The successful group had originally planned reoffering at a price of 103.22 to return an indicated yield of 4.65%. But evidently upon finding the investor response quite cool, the bankers proceeded to reprice the issue at 102 lifting the yield to 4.706%.

Bankers Get a Break

Underwriting bankers found something to cheer about in spite of the prevailing sluggishness in the new issue market this week when three potential issuers, who had heretofore set Aug. 17 as the date for receiving bids for their respective issues, decided to revise the schedule.

Accordingly American Light & Traction Co., pushed its offering of 190,000 shares of common stock of Detroit Edison Co. ahead and it was up for bids yesterday.

Halsey, Stuart & Co. Inc. which is marketing 574,087 shares of Central Illinois Public Service Co. stock will carry through on the 17th as scheduled, while Southern California Edison Co.'s $25,000,000 of new bonds will be up for bids the following day, that is next Wednesday.

Pennsylvania Turnpike

Pennsylvania Turnpike Commission's huge financing, largest revenue bid issue on record, for $134,000,000 appeared to be moving along in good fashion.

This was especially true in the case of the $87,000,000 of 3¼% term bonds, due 1988, which were offered publicly at 101. That portion of the loan got up to a premium of 102¼ on Tuesday but later settled back to rule about ½ point over the offering price.

The serials, however, were less aggressively sought after and it was reported that sizable blocks of the $47,000,000, priced to yield from 1.70% on near maturities to a quotation of 97¼ for distant series, were still around in good volume.

Illinois Brevities

(Continued from page 10)

Peabody Coal Co., on Aug. 31, 1948, will redeem all of its outstanding 6% preferred shares (par $100 each) at $105 per share and accrued dividends for the month of August of 50 cents per share. Immediate payment of the full redemption price aforementioned will be made at the company's office, 231 So. La Salle St., Chicago, Ill., upon presentation and surrender of said stock certificates.

* * *

Bacon, Whipple & Co. and Julien Collins & Co., participated in the public offering on July 28 of $50,000,000 first mortgage 3% bonds, series N, due 1978 of Commonwealth Edison Co. at 100.99% and interest.

* * *

United Drill & Tool Corp., Chicago, has arranged to borrow $2,000,000 from the Prudential Insurance Co. of America on a 15-year basis at an interest rate of 3¼% per annum. The net proceeds will be used, if needed, to pay for construction of the new manufacturing plant for the Whitman & Barnes division at Plymouth, Mich. It is estimated that the investment in the construction of the plant and the expense of moving to the new plant from the present Detroit plant will run about $3,100,000, and that the project will be completed about July 1, 1949.

M. J. Kearins, President, stated that "it is the hope and confident expectation of the management that the project can be financed entirely out of accumulated earnings."

* * *

Griesedieck Western Brewery Co., Belleville, proposes to split-up its present outstanding stock on a three-for-one basis and to create a new convertible preferred stock to be underwritten by a group of investment houses. The net proceeds from the sale of the prefered stock will be used to reimburse the company's treasury in part for expenditures on the expansion program to date and also to provide funds for construction and acquisition of additional facilities "in view of the fact, demand for the company's product continues to exceed its output."

* * *

Among the group of investment bankers which underwrote the offering to McCall Corp. common stockholders of record July 20, 1948 of 87,167 additional shares of common stock (no par value) at $26 per share, was Kebbon, McCormick & Co. The subscription warrants expired on Aug. 3, 1948.

* * *

Admiral Corp. for the three months ended June 30, 1948 reports consolidated net sales of $15,382,176, against $11,696,654 in the corresponding period last year, and for the six months ended June 30, 1948 $27,386,344, compared with $21,548,736 in the first half of 1947. Consolidated net profit, after Federal income taxes, totaled $706,887, or 78 cents per share, for the second quarter of the current year, against $342,995, or 38 cents per share, for the same period in 1947 while for the first half of 1948 net was $1,237,297, or $1.37 per share, compared with $854,456, or 95 cents per share, in the first six months of 1947.

* * *

Paul H. Davis & Co., Dixon Bretscher Noonan Inc., Kebbon, McCormick & Co. and Straus & Blosser were among the group of investment bankers who on July 21 publicly offered 167,955 shares of S. S. Kresge Co. common stock (par $10) at $35.25 per share.

The World Requires a Sound United States Economy

(Continued from page 7)

over and an inevitable war resulting.

Partisan Maneuvering

I do not believe the country is interested in whether President Truman is trying to put the Republican party on the spot—by calling a special session—or in us Republicans attempting to put the President on a spot. Americans are concerned lest partisan maneuvering interfere with the welfare of our country. In this critical hour I believe it is worth making the attempt to shift from political maneuvering to a settlement of major points of disagreement. The President, if he had used a different occasion than his party convention for announcing the special session, if he had not recommended both inflationary and deflationary legislation in the same message—would be in a sounder position to ask for that shift on the part of the Republican Congress.

The attitude and thinking of the next President of the United States is more important on inflation than any party platform declaration. For that matter, that is true of most of the platform statements.

However, political party platforms are not as meaningless as frequently supposed. In the first place, it must be borne in mind that it is extremely difficult, in a country of our size with our variety of interests, to write a platform representing fairly all of the issues involved. Therefore, party policy, as expressed by the conventions, are generally in such terms that the President can interpret them as he sees fit in the light of developing events. In the final analysis, such legislation as the Congress enacts depends on the courage—the vigor—and the intelligence with which it is administered by the President.

A Critical Hour

This is a critical hour. The foreign situation is very much in a state of flux, particularly as regards European affairs. We have not had a consistent and cohesive foreign policy—bi-partisan or otherwise. It is evident that the Western Powers, and particularly France, are leery about forcing

any show down over the Berlin situation. The French, in effect, are saying that the Allied position is untenable in Berlin and they don't see any reason for taking any risks of starting a war over Germany. The British are less outspoken on that, but they too apparently feel that Truman and Marshall haven't been too smart or adroit in handling the situation.

Even on the basis of the published notes and statements that have been issued by the Administration the last couple of weeks, we have been doing a lot of backing and filling.

First, we say we won't negotiate with the Russians on the whole German problem, and now, according to Secretary of State Marshall's statement on July 21, we are prepared to do that. Also, our original position in the Berlin controversy with the Russians, was based on our obligation to feed the Germans in our zone. Now the Russians come along and say they will feed everybody in Berlin, which certainly left the American people up in the air a few weeks ago. The German heads on the Western zones, in effect, supported the Russian position in refusing to go along with our plan for a separate government in Western Germany. Now it is announced that some Germans in the Western zone are agreeable.

All of this adds up to just one thing: That the Administration is constantly acting without sound ground under its feet. It is constantly taking stands and initiating projects without having the people it must depend upon to put these things through, fully lined up in favor of them. To me, it just doesn't make sense.

A general just doesn't start off on an operation without being sure that he's got the troops and supplies to execute the operation. But that's what the Administration is doing, both on its domestic and foreign policies.

Neither the Western Powers nor the Germans appear to be in accord with what we propose to do. That means either poor diplomatic work on just plain down right bungling and stupidity. It's probably a case of both.

Foreign Policy Mishandled

Marshall is plainly inadequate as Secretary of State. We just aren't employing diplomacy any more. Our foreign affairs are being run like an army.

We don't deal with people; we issue orders. And that just can't be done in politics, whether domestic or foreign. The Panama fiasco is an illustration.

There is a direct and intimate relation between foreign affairs and the military, but there is also a very distinct difference between the two functions. Neither Truman nor Marshall, apparently, have any comprehension of that basic and fundamental fact. Secretary Marshall is just a regular army soldier who doesn't know any different. In the meantime, we and the rest of the world are being wracked and hazed in a welter of war scares and chaotic muddling. Actually, it's nothing new. That has been going on now for several years. The only difference is that things have finally come to a head, and the situation is a lot more sinister and hazardous than ever before.

The lack of confidence in the way our foreign affairs are being run now is a very important factor as far as the Western European governments are concerned, and offsets to a considerable extent what we are attempting to do with the European Recovery Program.

For instance, the American Ambassador to England was having a conference with the British Foreign Minister, when the news was printed of the American Government's note—on disputed questions affecting other countries, including Britain—to Molotov, and neither our Ambassador to England nor Foreign Minister Bevin, knew anything about it until the press dispatches were laid before them. Naturally Ambassador Douglas was indignant almost to the point of resignation.

The Western Democracies of Europe are on the front lines. If anything happens it will happen to them first and it is natural that they should hesitate to back up an Administration that is repeatedly fumbling around like ours. It is all right for President Truman and Secretary Marshall to talk tough, but those people over there want to know just where that is going to lead before they commit themselves.

We Americans are entitled to demand that the Administration lay some cards on the table and tell what it is all about. That is one of the most terrifying aspects of the whole situation. Nobody really knows anything. All we get is rumored hints and a lot of babble.

Our intelligence system is a joke. Hanson Baldwin, an eminent military expert of the New York "Times" is taking it apart currently. He makes it very plain that our whole intelligence structure is a shambles of little groups trying to build up little empires of their own.

All that—our steadily accelerating drift to an inflationary bust over a period of 14 years—the pattern of our foreign policies—of course, play squarely into the hands of the Communists. They are just sitting back and letting us fumble and bumble and hoping that we will continue to scatter our money over so many places that we will be a pushover for them in a few years, when our economics are shattered and the morale of our people is wobbly.

If the American foreign policy is to succeed it must not only be intelligently handled but America must be a sound financial mooring post for the rest of the world to tie to.

The Remedies

The remedies are:

(1) Frugal government spending.

(2) Government overhauling its monetary policy—or more accurately, see to it that the Federal Reserve System stops following policies which are inflationary in the highest degree — while the President is alarmed at that very danger. In 1946 we had an increase in the money supply and bank credit which measured by peacetime standards was perfectly fantastic. In 1947—in contrast—it did begin to put on a little deflationary pressure, but it was mighty gentle.

The argument in support of that policy is that unless money rates are continued at an artificially low level through Federal Reserve policy, the interest charge on the public debt will be increased. If there ever was a case of being penny wise and pound foolish, that certainly is it. In order to save some dollars on the carrying charges of our public debt, we are endangering the price structure of the whole nation and thereby undermining the value—the real value—of the entire savings of our people.

(3) Some restraint on give away international spending. It seems to me it is about time the government got itself straightened out on what it is doing to prices. It comes with ill grace for an administration to complain about the rising costs of food when the administration is contributing to that cost by the way it handles its own purchases. Its lack of an orderly price program has encouraged speculation and driven prices to substantially higher levels. I believe, that in the interest of an honest solution—the administration should let the people know the effect of the so-called bypartisan foreign policy on prices.

The big grain crops of this year would begin leveling off the rise in the cost of living and put a damper on further wage and price rises, if it were not for the give-away policy of pouring foodstuffs into Europe at the very time Europe's crops are good.

Furthermore, both a Republican Congress and a Democrat President cannot continue to support one agricultural price program after another and still expect prices to go down.

(4) Impose consumer credit controls by Presidential proclamation. If our government—and that means both the President and the Congress—would do all it can in establishing beyond any questions of doubt, a permanent, sound, physical policy — balance the budget — make a substantial payment on the national debt — lower taxes—tighten up on credit —make sensible tariff adjustments — maintain a fixed and sound monetary policy—all that, acting together, would have a corrective influence on the cost of living and would do much to prevent the economic bust that Russia is hoping and waiting for.

Obviously, the more money we pump into circulation through government spending—regardless of the merits or demerits of the idea—the more we add to inflationary pressure. Obviously we are in a situation more precarious.

The reestablishment of a sound economy in our country calls for statesmanship of the highest order — both in our policies at home and abroad. We watch the unfolding foreign and domestic crises that may mean the deluge for our coveted civilization. I believe that now is the time for that cooperation between the Congress and the President that war itself always crystallizes in all loyal Americans for the sake of our nation. Now is the time to show the world we can pull together before the storm breaks as well as after it hits.

A sound economy is as vital to our security as planes, tanks, guns, and men.

The whole world today—that is the free world—requires strength and a sound economy in the United States of America. Without it our leadership would fade —the European Recovery Plan would disappear — world trade would be paralyzed. The Air Corps, the Army and the Navy—the right arm of the freedom-loving peoples everywhere — would be ineffective. The Kremlin would be afforded propaganda and strength by our failure. Its influence—a menace to us all—would spread.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—When and if the Federal Reserve Board reinstates the restrictions on instalment credit sales, it may as an incident thereto deflate a substantial volume of the business of selling "new used cars" at substantial premiums over the legitimate dealers' retail prices.

Under Regulation W credit was regulated in connection with the purchase of used as well as new cars. The basis of value for the OK of the instalment loan on a used car was the average price cited by an approved appraisal book for the make and model in question. Auto appraisers do not recognize the premiums received on "second hand" cars driven around the block and sold to the gray market dealers after initial purchase at the list price.

So credit based on premium prices will be out. This means that the avid purchasers at premium prices will have to raise the difference between the appraised value and the premium price, to which in cash they must also put up the third down payment of the lower appraised value.

The higher down payment alone will cut a lot of the volume out of the purchasing of new cars at gray market premiums. So will the stricter terms. Otherwise the "used car" dealers would have to violate the law by selling on credit terms in violation of Regulation W. The Reserve Board believes that few will be able to get away with it, for credit sales more liberal than allowed by the regulation will be relatively easy to detect, simply because competitors quickly find out about it and snitch on the violator.

* * *

When Congress was considering authorizing the restoration of consumer credit controls, there was very little objection from industry. Business men generally oppose the principle of regulation more than they do its application to instalment credit terms. Most of the better established finance companies have been careful about not encouraging the "dollar down and dollar a week" business despite the ending of the regulation last November. Banks also have generally gone along on a more strict basis.

These industries whose products are coming into supply—like radio manufacturers—may welcome the instalment credit controls. The higher down payment will discourage turnbacks, which have generally been found to be heaviest where the buyer's equity was less than 25% of the purchase.

* * *

Whatever is done with the other phases of the Congressional bill—if not vetoed—the reinstatement of Regulation W is expected shortly. There may be one important modification with respect to automobile credit. The motor industry likes the 18-month repayment term, instead of the 15-month period used before. The Reserve Board is expected to go along.

* * *

Until President Truman makes it clear whether he will approve the Congressional bill, however, there will be a big "IF" about the entire proposition. The President's blast at Congress for having "done nothing" before the Senate had acted, gave everybody in the Administration and Congress except the amateur White House political strategists a case of the jitters. They thought it looked like an advance tip that Truman planned to veto any bill, and were surprised Congress troubled to complete action.

* * *

Spokesmen for the Federal Reserve Board, the Treasury, and the Administration generally ducked the issue of when additional reserves would be ordered, and to what extent. It is being said here that the approach will be to require such additional reserves as may be necessary to offset factors increasing bank reserves from this time on. Chairman McCabe of the Board declared flatly that the higher reserve power would not be used to contract the volume of commercial and industrial loans.

* * *

Neither Mr. McCabe nor Treasury Secretary Snyder, it is said, would have recommended to Congress that power be vested in them at this time to require increased legal reserves if the President, in his special session message, had not in effect committed these agencies to supporting him. Mr. Snyder told the Senate Banking committee that commercial and industrial loans were not presently at such volume as to contribute to inflation.

* * *

One thing brought out in the debate within Banking committees over the higher reserve proposal was that members of Congress whose opinion counts, are becoming more and more skeptical of the idea of pegging the government bond market and holding interest rates down. This thinking may have a bearing next year if there is a new Administration. However, any decision about dropping or changing the pegs would have to be made in the first instance by whomever the new President selected to become his Secretary of the Treasury and Chairman of the Federal Reserve Board.

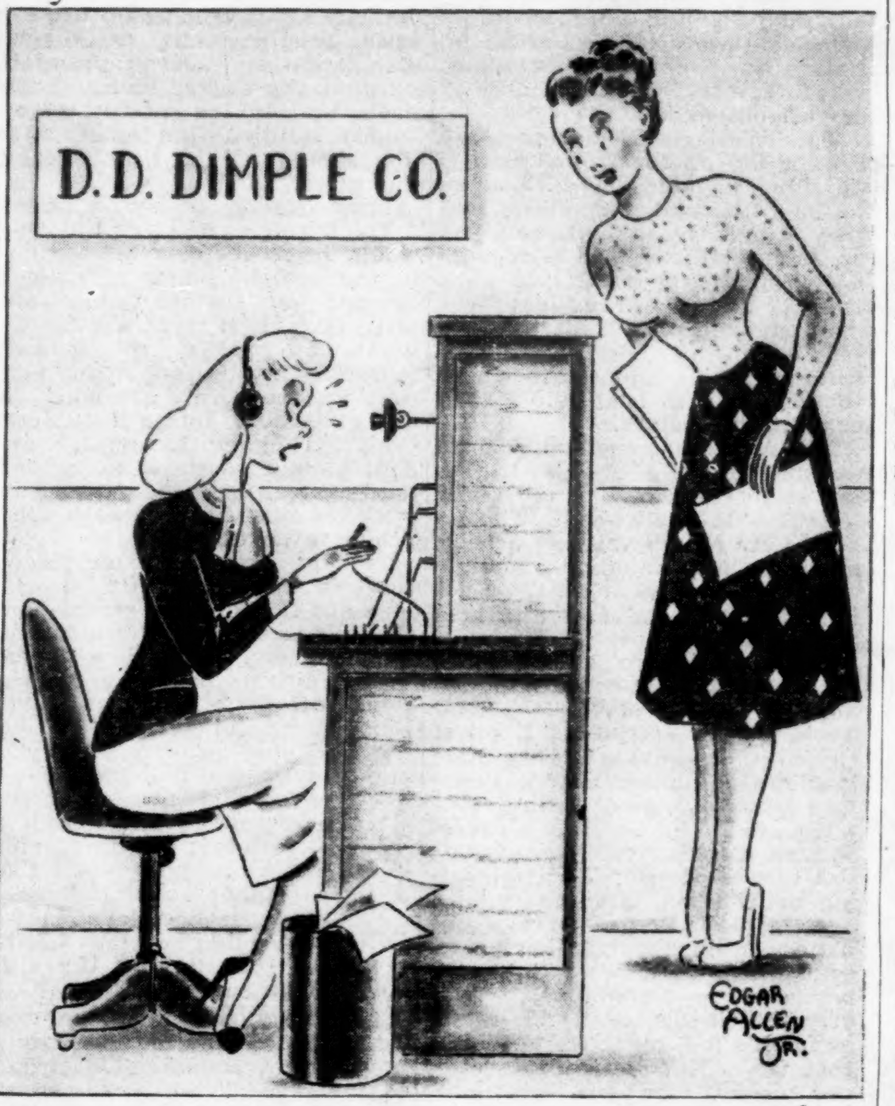
* * *

Administration and Federal Reserve spokesmen took the position they have held for many months, that they would be glad to let go the pegs if Congress ordered them to do so, and in effect dared Congress to try it. In open hearing Chairman Wolcott of the House Banking committee advised Mr. McCabe that Congress was unlikely either to order the dropping of the pegs or pass legislation specifically authorizing the Reserve banks to continue them. He indicated that he thought some lowering of the pegs might be suitable.

* * *

Congressional thinking is now leaning toward the idea of dropping the "voluntary allocations" law which the Congress finally adopted last December with a view to providing some answer to Mr. Truman's demand for legislation authorizing compulsory materials controls. Under this voluntary law industries can reach agreements for voluntary allocations of materials and, after the OK of these programs by the Attorney General, receive immunity from antitrust prosecution for their operation. This law expires Feb. 28. The Congressional leaders doubt now that they will extend its operation when they return in January.

BUSINESS BUZZ



"I wish they'd change the name of this company—everybody thinks I stutter!"

Senator Homer E. Capehart of Indiana, chairman of an Interstate Commerce subcommittee investigating the effect of the abandonment of basing points upon business, wants every business man who has an idea how this situation will hit him, to tell the Senator about it. Write to the Senator at the Senate Office Building, U. S. Capitol, Washington, D. C. The Senate subcommittee has a staff which can study and correlate these answers. He is particularly anxious to hear what small business concerns think about the possible end of basing point pricing systems and what it will do to them.

* * *

Incidentally, it has been agreed privately that the Interstate Commerce Committee will handle any legislation on this subject, which is jurisdictionally under the Senate Judiciary committee. The latter committee, it is said, is willing to bow out, giving the Interstate Commerce Committee a clear track to handle any legislation arising out of the committee's study of the basing point situation. The advance avoidance of a jurisdictional squabble between committees gives the Capehart study a greater significance.

* * *

Yet next year Senator Charles W. Tobey of New Hampshire, a New Deal Republican who usually has sponsored a viewpoint similar to that of the Truman Administration and in opposition to that of the Republican leadership, will become Chairman of the Interstate Commerce Committee of which Capehart is a subcommittee chairman. Tobey will take over the Interstate Commerce Committee with the retirement of Senator Wallace White of Maine, and will leave the chairmanship he now holds of the Banking committee.

* * *

When public housing and slum-clearance was approved by the Senate last April, it was adopted by a vote of 49 to 35. Last Friday the Senate voted 48 to 36 to drop the public housing features. This shift of 13 votes is due in part only to the postponement of the issue until next year. In part it reflects Mr. Truman's loss of prestige since the April vote.

* * *

Here are some of the things reported about America's newest industrial baby, television: Thirty-one television broadcasting stations are now in operation; by the year end there will be between 75 and 100 operating. Some 500,000 persons now have receiving sets, half of which were sold during the first six months of 1948. Another 500,000 are expected to be sold by Dec. 31. Other factors being equal, the backlog of demand for the television sets will not be met until 1951. Major changes in television, except for color television, are not expected for several years, and the average price of receiving sets will not come down much in the next year or so because production costs are not falling.